the MANAGEMENT REVIEW

AUGUST, 1949

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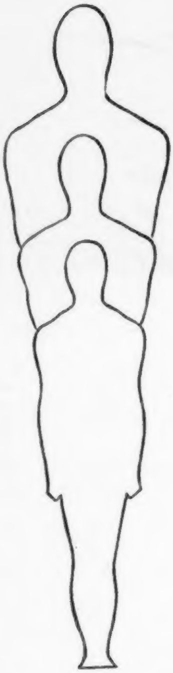
...MERICAN MANAGEMENT ASSOCIATION



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the MANAGEMENT REVIEW

Volume XXXVIII No. 8

AUGUST, 1949

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General Management

How to Keep Executives Healthy

WHEN the bags under an executive's eyes begin to bounce as he walks—

When his stomach feels like a rock-crusher in low gear—

When he starts lying awake nights chewing on the cud of unpleasant things, past and future—

When his wind grows too weak to blow out a candle—

When he looks behind, involuntarily, to see what's dragging—

Then even he is apt to think it's time to check up on health.

His company, if it's as smart as many, will have thought so for a long time back, and will have set up a program of executive health to conserve its investment in its key men, before they deteriorate to this unhappy stage.

Here are the conclusions reached by the farsighted and humane top managements of a number of successful companies:

First, executive health is a corporate problem, and an important one.

"You can replace machines," says Dr. Anthony J. Lanza, chairman of the Institute of Industrial Medicine of the New York University-Bellevue Medical Center. "But you cannot replace 10, 20, or 30 years of executive experience in your company's special problems." Not in less than 10, 20, or 30 years, at least. You can transfer a skilled machinist from Company A to Company B without requiring too much new break-in, but an executive of Company A may need a long trial before clicking in Company B.

Second, executive health is a company responsibility, too.

The things that go wrong with an executive are more likely to be the result of his job than are the things that go wrong with a production worker. Emotional upsets, and their physical results—which often are caused by the company's competitive struggle or by the executive's personal competition with fellow executives in the same firm —as well as such diseases as come from a man's being driven too hard are job-caused among executives, doctors say.

Third, the big stumbling block in the way of keeping executives healthy is their fear that they'll find something seriously wrong with themselves.

"Will he tell me to "take it easy?", wonders the harried executive. "If he does, how can I keep on doing my job? How will I ever win that promotion I need, if I have to relax?" And he tells himself he owes it to his family to keep away from the doctor and keep up in front of the old company firing line, giving his all. What he overlooks is that, if something is wrong with him, and he conks out in a year or five years, he is doing his family, and his company, a disservice.

In studying the problem to come to these conclusions, it was necessary first to find out what "executive diseases" really are.

One big corporation, with an executive-health program in effect for about three years, has found its executives suffer, according to frequency, from: hypertension (high blood pressure),

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heart impairments, kidney ailments, a large scattering of previously unsuspected diabetic conditions.

"It's hard to tell what diseases executives have most frequently," says Dr. Charles A. R. Connor, medical director of the American Heart Association. "The only valid statistics are death certificates. And they don't say a man died of a heart ailment *because* he was an executive; simply that that's *what* he died of."

The death certificates, moreover, list only the dead—not the half-living, who sometimes feel they might be better off dead.

American Heart Association figures indicate, however, that diseases of the heart and blood vessels are the leading causes of death in men in the executive-age ranges.

All the experts agree on this point: When an executive capers across that 40-year line, full of moxie, headed for a touchdown—he hopes—in the great game of life, he'd better watch out for the health hazards waiting to tackle him.

So should the company he works for.

Some of the precautions an executive can take best himself.

For instance, suggests Dr. John J. Wittmer, assistant vice-president of Consolidated Edison Co., New York, and member of the Medical Advisory Committee of the Institute of Industrial Medicine, he can "quit trying to carry the whole world on his shoulders"; quit carrying the loaded brief case home every night, organize his job, and do it efficiently.

In other words, if you're going to be an executive, then *be* one: Don't let the job boss you.

The staff psychiatrist of one large corporation says a bad case of brief-case-itis is a sure sign that: The man doesn't know how to do his job, or the job is simply too much for one man.

Most men who feel the need of working long hours, then taking work home with them, think the job's too big. Usually, says this psychiatrist, experience has shown the man's too small.

This doctor's opinion, shared by top management of the company, is brutally frank:

"When you see a man taking his brief case home every night, you can be pretty safe in putting that man down as a stuffed shirt, a man who has made his present grade by the skin of his teeth, a fellow who has to spend long hours on his job just covering up his ignorance or his lack of intelligence.

"He's not only unlikely to do good work on his own job; the whole organization under him is likely to become tense, worried, and shorn of morale."

Second most important thing an executive can do to keep his health, says Dr. Wittmer, is to get rid of health phobias. Many men worry themselves into ill health by diagnosing themselves.

The day after the late Mayor La Guardia of New York died, 10 executives turned up in one company doctor's office with "funny feelings" in their stomachs, akin to those ascribed to La Guardia in his last illness.

The same doctor, on another occasion, was startled by an epidemic of leg-numbness among the company staff members. Then he recalled that the papers, the day before, had carried prominent stories on the bad legs of King George of England.

Executives with these particular imaginary ailments at least had the good sense to go to a doctor, who could disabuse them of their nightmares. Many a man, however, keeps his fears to himself and lets them build up into something more serious—a real illness growing from worry about imagined ones.

Most important thing that a company executive-health program accomplishes, in fact, is to make medical care —both preventive and curative—easy

for executives to get, and desirable to get. Knowledge of the health of leading executives helps a company to plan its top-personnel program so that ill health or untimely deaths do not leave gaping holes in key spots.

Besides making good health an obvious company policy, corporate executive-health programs make it physically easier for top men to have their health looked after.

Some companies have special arrangements with private doctors for their executives. Many provide a home-office staff of top-flight medical men to provide complete check-ups in one spot, on a "one stop" basis.

Medicine as it is practiced today requires the services of many specialists. If a busy man, Dr. Wittmer points out, must go to his family doctor, then have appointments made for other check-ups by specialists, and thorough X-rays and electro-cardiographs, he may never get around to finishing the job, even if he starts it.

If all the facilities for a thorough diagnosis are at hand in his own office —and the medical department is there to needle him into setting a definite date to come and get it over with—the chances are much greater that the job will be done and done thoroughly and regularly.

A company medical director can, in one way at least, give the executives in his firm better care than other doctors they might consult. The medical director knows, better than any outsider can, the conditions under which his patient must work. His advice, therefore, can be particularly realistic and useful.

It is the advice, "the very intensive, detailed talk the doctor has with the patient," that is the heart of the medical program. A good health examination, Dr. Wittmer says, consists of three things: the patient's history, a complete physical examination, and the doctor's advice, based on a thorough knowledge of the patient, how he works, what his job is, his capabilities—and what he must do to keep or build his health.

"And if you can't get the third part, don't bother about the first two," this doctor advises.

For the sake of building up a "history" of the executive's health, periodic examinations are necessary. The check-up at age 40, says Dr. Connor of the American Heart Association, is the most important, because it furnishes a "baseline" against which a man's future condition can be compared to see what conditions are normal to him, which are getting worse or slowing down.

Some companies try to persuade executives to have a check-up annually. Others think the period need not be so frequent, so long as health is good.

But the main thing is for the executive himself to know the condition of his health and to learn to live with the budget of health Nature has given him.

Modern Industry, March 15, 1949, p. 114:6.

How Fast Can You Spend a Million Dollars?

A century ago it took the government nine days to spend a million dollars; today, it sails through a mere million every 12 minutes. Of course, everything is speeding up these days — for instance, we have learned how to travel about 25 times as fast as in 1850. But even our transportation speed-up dwindles in significance when it is noted that the government has learned how to spend tax money 1,100 times faster in the same 100 years.

—*Commerce* 6/49

The Upturn in Business Is Not Far Away

IS the present business recession mainly psychological? The Council of Economic Advisers said in a recent report: "If uncertainty about the future should reach the point of distinct pessimism, orders and inventories might be sharply reduced to an extent that would initiate a further spiral of unemployment." Senator Ralph Flanders of Vermont, who, as a manufacturer and a banker, knows business intimately, recently said that the only real danger to the nation's economy is the possibility of business men "frightening themselves into a recession."

If the recession is mainly the result of fear, could not an upturn be started merely by showing people that the economy is basically sound and that a repetition of 1929 is out of the question?

The view that the recession is mainly psychological has been supported by citing the huge purchasing power possessed by individuals and business concerns. The recession has occurred in the face of the fact that individuals and business concerns hold an almost unprecedented volume of liquid assets, and in the face of a very low ratio of debt to income.

Certainly there can be no doubt that expenditures for goods have been limited, not by inability to buy, but by unwillingness to buy. As soon as prices started to decline last year, consumers began to postpone buying on a substantial scale. The behavior of business enterprises also gives some support to the view that the recession is psychological. The reaction of managements to the drop in prices has been pronounced. Despite the fact that the volume of retail sales as a whole has not dropped, there has been a sharp cut in new orders placed by business concerns.

Despite such evidence, I do not believe the recession is, in the main, psychological. There are good economic reasons for the decline in prices, production, and employment. A favorable change in sentiment, of course, would help produce an upturn, but I do not believe that the upturn will be delayed until sentiment becomes optimistic. I expect recovery to start for good economic reasons *before* sentiment improves. The revival will start, as it usually does, while gloom is still thick and while the price level is still falling. The upturn will produce an improvement in sentiment—but the change in sentiment will be the *result* of the recovery, not a cause of it.

Let us first look briefly at the good economic reasons which produced the downturn.

Why have prices, production, employment and buying by business concerns all dropped in the face of virtually no change in the volume of retail sales?

The underlying reason is a drop in the urgency of the demand for goods and an increase in supplies. The huge backlog of demand which accumulated during the war caused expenditures for consumer goods between 1944 and 1947 to outrun incomes. Personal incomes after taxes in that period rose \$28 billion, but the outlay for consumer goods increased by \$53.4 billion. About the middle of 1947, however, a change occurred. Most of the urgent demand had been met. As a result, expenditures on consumer goods ceased to rise as rapidly as incomes. In the meantime, bottlenecks that were holding back the output of various scarce goods were gradually being eliminated.

After August and September, 1948, the drop in the urgency of demand and the increase in the supplies of many

goods started a slow decline in the price level. The fall of prices was important. It encouraged individuals to postpone some purchases and temporarily to spend a smaller part of their incomes for consumer goods. It also reduced the willingness of individuals to go into debt in order to buy goods. Between September and December, 1948, consumer credit increased $1.1 billion in comparison with $1.7 billion in the same period in 1947. The decline in prices also changed the buying policies of business concerns. They cut their new orders for goods sharply between September and December, 1948. In the same period in 1947, there had been virtually no drop in new orders.

After the beginning of 1949, consumers ceased to increase their expenditures and began slowly to reduce their short-term debts. Between January and April, 1949, outstanding consumer credit decreased by $100 million. In the same period in 1948 it had increased by $500 million. More pronounced was the drop in the willingness of business concerns to spend. Their outlays on plant and equipment (mostly ordered a year or more ago) kept up, but their new orders for goods dropped rapidly after January, 1949, and so did new private construction awards. Business concerns also began paying back their short-term debts to banks, and between December, 1948, and June, 1949, cut the amount owed to the larger banks by $2.3 billion—from $15.6 billion to $13.3 billion.

I have suggested that the upturn will not wait for business sentiment to improve but that it will start in the midst of uncertainty and gloom and while the price level as a whole is still falling. I do not think that a large further drop in the general level of production will occur—despite the fact that recent output has been larger than new orders placed by business.

The principal positive reasons for expecting an early recovery are: *(1) the large and growing volume of government expenditures; (2) the fact that the appreciable postponement of consumption by individuals has now been going on for about a year; and (3) the fact that for four or five months consumption has been running ahead of production.*

(1) The increase in government expenditures called for by the budget of 1949-50 will not entirely offset the drop in business spending, but it will help to do so. Among other things, it will assure that the total outlay on construction will be about as large in 1949 as in 1948.

(2) Consumers have now been postponing buying on an appreciable scale for about a year, and a fairly large backlog of demand has undoubtedly been built up. The strong financial position of consumers makes it likely that general postponement of buying will not continue on a large scale many months longer.

A survey of consumer finances sponsored by the Federal Reserve System shows that at the beginning of 1949 the proportion of spending units (one person or more than one person who share expenses) who felt that they were either better off than a year ago or as well off as a year ago was larger than in any of the last three years. About 47 per cent of all spending units received $3,000 or more in 1948, as against 42 per cent in 1947. Increases in income were more frequently reported by spending units which had $4,000 or less income in the previous year than by spending units which had more than $4,000 in the previous year.

(3) The most important reason for expecting an early upturn is the fact that consumption has now been outrunning production for four or five

months. Retail sales for the last six months, as has been pointed out, have been about the same as last year in both dollar and physical volume. The output of non-durable goods in the four months, February to May inclusive, however, was 6.9 per cent below last year, and the output of durable goods, 3.4 per cent below.

Output last year, it is true, ran roughly 2 per cent ahead of the domestic consumption of goods by individuals, business and governments—about $3.8 billion of the gross product of $254.9 billion went to increase inventories and about $1.5 billion represented goods sent abroad for which neither goods nor gold was received in return. It is plain, however, that with retail sales about the same as last year in physical volume and production well below last year, consumption is greater than output.

The fact that consumption is larger than production is especially important in view of the fact that the new orders placed by business concerns are smaller than current output. Consumption cannot run ahead of production for many months without bringing out a rise in new orders, production, and employment.

How long must consumption exceed output before production begins to increase? The answer to this question depends upon a number of conditions, but principally upon the size of inventories. If inventories are very large, enterprises will be able to operate for many months at less than the current rate of sales.

Present inventories, however, are not large. Indeed, ever since the end of the war inventories have been substantially smaller in relation to sales than they were in 1939 or 1940. In May, 1949, it is true, inventories were slightly larger than a year ago, but between January and May, 1949, considerable progress had been made in reducing them—their book value was reduced by $2.1 billion. In the same period last year, the book value of inventories *rose* by $2.1 billion.

Changes in the physical volume of inventories were less than changes in the book value, but there was a decrease in the physical volume of inventories in the first five months of this year in contrast to an increase last year. The time when output must be brought closer to the current level of consumption cannot be far distant.

Recovery is likely to begin with increased buying by business concerns, rather than with increased buying by consumers. This is what happened in 1921, 1924, 1933, and 1938 when recovery in non-durable production preceded the upturn in department store sales. That buying by business should increase before buying by consumers may seem strange, but the explanation is simple. When merchants and wholesalers seek to cut inventories, their rate of buying falls far below the volume of their sales. Hence they are likely to be compelled to increase their buying in order to prevent a further drop in inventories even before their customers have started to buy at a faster rate. In 1949 an increase in orders for non-durable goods is likely to precede a rise in retail sales.

More optimistic sentiment would hasten the upturn. It is fortunate, however, that the revival of production and employment does not require that business men become cheerful or that they happen to like the short-term general economic outlook or the immediate policies of the government. The foundation for revival is being laid by the demand that is accumulating from the postponement of buying by both individuals and business concerns, and by the fact that business is not pro-

ducing enough to supply even present consumption.

Each month that consumption exceeds production strengthens the foundation for recovery. Under present conditions, consumption can probably not exceed production for more than seven or eight months before output begins to increase.

BY SUMNER H. SLICHTER. *The New York Times Magazine*, July 17, 1949, p. 7:4.

Details Are Little Robbers

IN one of George Matthew Adams' recent essays, which are syndicated to a large list of daily newspapers, occurred this sentence: "Details are little robbers."

We read this blunt statement, read it again, pondered it, tried to swallow it whole, tried to reject it—and ended up with a sense of perplexity.

Of course details are little robbers. But it is equally true that there are no details, in the sense that nothing is trivial or unimportant; every tiny segment of everything we do is important.

"Trifles make perfection, but perfection is no trifle," said Michelangelo. The fact that this epigram has been quoted threadbare does not detract from its truth.

Just the same, details *are* little robbers. When we become involved in them, they rob us of precious minutes and hours of time. They steal our mental energy. They chain us to desk or bench and make slaves of us. They deprive us of the pleasure of working in broad, sweeping fashion, like an artist painting in bold strokes with a broad brush.

Yet few men are masters of an art or science or profession—or of any phase or function of business management—who have not learned to handle its details. They may not presently be enmeshed in them, but they could shoulder them again if the necessity arose.

The secret seems to lie in mastering details—without being mastered by them. Thus we rob them of their power.

—*Management Briefs* No. 27 (Rogers & Slade)

What Is a Company Director?

MANY men serve on boards of directors because they have names that are known to the public. Others do so because their families own stock. But what is the average director? The Conference Board surveyed to find out: What does the composite company director do, what does he earn, and who is he?

The survey showed that the average board has seven or nine members. Nearly half of them are full-time officers, and there is at least one substantial stockholder who is not an officer. The influence of bankers is diminishing. Industrialists are taking their places. Legal men rank third.

Fees paid to directors are increasing, the survey notes, with an average of $50 per meeting as compared with $20 in 1938. There is a growing tendency to pay salaries to directors; these range all the way from $1,000 to $12,000, the majority near the lower end of the scale. Average tenure of office runs between five and nine years.

What do directors do? The survey says that in a substantial majority of cases the board: (1) selects the president and other top executives; (2) sets the president's and others' salaries; (3) appropriates sizable sums for new products; and (4) selects auditors.

—*Net Results* 4/5/49

● EIGHTY-TWO HOURS OF WORK are required to meet the annual housefurnishings bill of today's moderate-income family, according to a recent Conference Board survey. In contrast, 95 hours of labor had to be expended to meet the relatively modest housefurnishings budget of 1914.

Exit the Capitalist—Enter the Manager

INDUSTRY has for some years been undergoing a change in which the policy-making function has been passing out of the control of the capitalists into the hands of the managers. Today's manager holds broad powers, is highly skilled, and is indispensable. To qualify for his new role, he must earn respect for his profession by exemplary leadership.

The historic position of the manager is clear and simple; he was hired by the capitalist to oversee the business *for the benefit of the capitalist.* Policy, while executed by the manager, was dictated by the capitalist. This historic position still prevails in small companies. For such companies, the managers are not trustees unless it be solely for the interests of the owners, who retain both the legal and the *practical* power to fire any disloyal manager.

The large corporation is, however, now owned by a horde of little capitalists who cannot constitute a policy-making body. For these large companies, the multitudinous owners still retain the legal right to fire the managers. Yet the ability to exercise that legal right has been virtually neutralized by the practical ability of the managers to perpetuate themselves in power.

This is not to say that the managers in these large firms have always devoted themselves to balancing the interests of the owners, the workers, and the consumers. On the contrary, the first loyalty of the managers is still largely to the capitalist. In many firms, however, the capitalist has rendered himself ineffective by becoming too numerous. As the residuary legatee of the capitalist, it is the manager who gravitated to the policy-making post left vacant by the capitalist.

Who is this manager? Can he divide the fruits of industry with an even hand? What are his strengths and weaknesses?

There are a number of weaknesses inherent in management's position:

Management referees the division of the fruits of industry, yet plays on one of the competing teams.

The traditional job of management was solely one of operating the business to yield a maximum profit for the owner. Subsequently the job became one of operating the business at a profit, *but* mindful of the interests of employees and customers. More recently the assertion has been made that management is a trustee for all, owners, employees, and customers. As such, however, management is legally beholden only to the owners. Only the board of directors chosen *by the owners* has a legal right to appoint or to remove the management. A diversified ownership may seldom be able to use this weapon, but can always brandish it. How, then, can the trusteeship contention stand up, either in the law courts or in the court of public opinion?

Management governs employees without the consent of the governed.

Here is a historical paradox. Even while the political citizens of the eighteenth and nineteenth centuries were establishing the doctrine that government must derive its just powers from the consent of the governed, the industrial society, smaller than a man's hand, was on the horizon. That society has engulfed millions of people into its direct activities and has organized them into huge industrial communities.

The laws of these new communities have been enacted by managers never elected by the citizens; the execution of the laws has been by managers never elected by the citizens; the judgment of wrongs has been by managers never elected by the citizens.

Management has relied on the authority of rank rather than the authority of knowledge and respect.

It has been the habit in industry to believe that the number of stripes on one's industrial sleeve, or the altitude on the organization chart, should, to those of lesser rank, constitute the basis of unquestioned obedience. This has generated some truly vicious instances of industrial totalitarianism. There is still much talk of management "prerogatives," as though these prerogatives can be acquired and retained without being earned.

In contrast, other and more enduring forms of authority have scarcely been exploited. The authority of knowledge, derived from professions and skills, and especially the authority of leadership, derived from fine personality, are only in their incipient development in industry.

Management's skill in handling men has been far below its skill in handling money, materials, or machines.

Management's research into human affairs has fallen far short of its researches into technical matters. Many companies have commenced to make up for lost ground, but there is much ground to be made up. Many a labor union effort is directly traceable to poor management practice in personnel relations.

While asserting the right to govern employees, management has largely disclaimed responsibility for their welfare and security.

There have been some notable exceptions among companies, but in the main the social reforms of the past have been rammed down the protesting throats of management. It is a bleak record to have stood so consistently on the wrong side of so many developments which in retrospect now seem so obviously right. Management has yet to convince the workman that his welfare will prosper in management's hands. Here is clearly a place where authority must be earned.

Management has made only a feeble presentation of its case.

This is in part due to the fact that management does not clearly understand its own strengths and weaknesses or even its role in the broad scheme of things. It has so occupied itself with day-to-day problems, and has so cloistered itself in their performance, that the grand march of the century has largely escaped notice.

Moreover, management has muzzled its junior executives and technicians, who are potentially among its most vigorous defenders. Few outside of big industry realize how stifling has been the censorship within. The right to make public utterances is restricted to a chosen few, and all too often they do so from dehydrated copy, under auspices long associated with social backwardness. It is absurd to suppose that the published pronouncements of tycoons can be relied upon to "sell" management to the citizen in the face of the grass-roots campaigns of other groups.

Despite all these defects, management's strengths are perhaps more significant than its weaknesses:

Management still holds broad powers. Management retains the legal right to act for industry. Management signs the papers which spell action. It is hardly necessary to emphasize that those in power can use part of that power to perpetuate that power.

Management possesses tremendous skills. The art or science of managing involves the use of special managerial tools—the tools of organization, delegation, coordination, controls, selection, training, incentives, and a host of others. In the knowledge and use of these managerial tools, American management can, despite certain recognized weaknesses, claim the world's championship.

Management is indispensable to any economy. It is conceivable that the owner's legal control over industry may shrink still further, even to the point of ineffectiveness. But management will remain indispensable, if the decisions of the new policy-makers are to be put into effect.

Management's recent record looks good. Management today has, in the public mind, behaved well in contrast to the greedy "robber barons" of the nineteenth century.

Management is developing industrial statesmanship. Management is commencing to show clear signs of positive leadership in the economy. Exemplified by the American Management Association and the Committee for Economic Development, this new leadership is in sharp contrast to the "around-the-corner" bewilderment of the early 'thirties, the stone-blind opposition of the late 'thirties and the "save-free-enterprise" hysteria of the last few years. The most hopeful sign is that management has been re-examining its own premises. In so doing, it is discovering that these premises have been mainly responsible for the blind spots of the past. It is significant, moreover, that this new leadership is bypassing the older management fraternities, which tend toward reaction.

For management to become recognized as the professional trustee, on whom all can rely, requires that management earn the respect accorded to a profession. Such respect can never be earned by partisans; it can be earned only by those whose acts are grounded in the universal and ethical principles of a profession.

The judges of the law and the diagnosticians of medicine have achieved precisely such judicial positions in their respective professions. To do so they have traveled from obscure origins over a long bridge of professional principles. It is precisely this bridge which management must build and cross.

Having passed, in its conflict with labor, progressively through the stages of surprise, confusion, alarm, and despair, management seems at last to be collecting its strength and its wits. The signs are that management is setting out to earn its position anew by exemplary leadership instead of continuing to lose that position by prattle about prerogatives.

True, the top ranks contain now many who simply cannot change; to do so would deny the habits and philosophy of a lifetime. But these autocrats have by no means corrupted the new management generation, many of whom rode out the depression in the same leaky boat with labor.

By Joseph M. Juran. *Advanced Management,* September, 1948, p. 126:5.

● IT'S ONLY MONEY! For the fiscal year starting July 1, 1949, the Federal Government was scheduled to spend approximately $41,000,000,000—which is about $5,000,000,000 more than the value of all the gold that has been mined in the whole world during the last 457 years.

—*Back Talk* (J. M. Kesslinger & Associates)

How to Lasso an Octopus—Dealing with Official Washington

PROBABLY it is your lot to have to "deal with government"; everybody does. Here are some recommendations on how to do it, based on opinions of government officials and of men whose business is persuading officials.

The first thing to do is to find out with whom you must deal. The object of your search is always a person, not an institution. Usually you want the man of lowest rank who has the power to do what you want done. Unless he has been persuaded, your mission has probably failed notwithstanding the cheery promise of a Cabinet member.

If you are not in Washington, the simplest way to find him is to write to the head of the agency or its general counsel. In your first letter, do not state your case too precisely if it is controversial. Ask who handles such matters, giving enough information to identify that man. It doesn't hurt to possess the *United States Government Manual,* (U.S. Government Printing Office, $1), which lists the names of supervisory officials.

Suppose that the man who handles your case is rated in government language as a "P-6" getting around $6,000 a year, and that you are the head of a multi-million company. Your best bet is to find among your subordinates the proper technical man. Your man and the government's, both being statisticians or experts in some chemical compound or other, should fall into the technical camaraderie of people who talk the same precise, unintelligible language. Together they'll explore, hunting for objections to your proposal and ways to meet them.

If the department already is committed in print and can't do what you ask without seeming to reverse itself, the top man too must be visited. But it is best that the ground be prepared beforehand by the technical people. After all, when the Secretary of State negotiates, he has his underlings first "lay the technical groundwork." In such a situation, your subordinate should tell his opposite number in government that you are seeking an appointment with the Secretary. He should ask the official for a briefing on how to deal with the Secretary.

In seeing the Secretary, there are some additional rules. Mention that you've been in touch with the Department's experts who, you believe, can deal adequately with the matter if given the authority — if, that is, you actually believe they can. You should compliment their work unless — and this is vital — three or four competing officials are involved. Then invidious praise for one may offend the others.

Cultivate the Secretary's secretary. Usually she is highly competent. She knows the Department's business. Some of the things you want the Cabinet member to do, she can do and is flattered to be asked. If she doesn't like you, she can put your letter at the bottom of the stack.

Whether dealing with the Secretary or an underling, do not offer your own pat solutions. If you want to see a ruling promulgated, take out your version tentatively, with some such words as these: "I wanted to get my own ideas into as precise a form as possible and so had our lawyers cast it as a ruling. Maybe you can make something of it."

And remember, it's a *faux pas* either to exert pull where it is not important or to overlook it where it is.

Sometimes finding *the* right man is

impossible because there are two or three.

As you consult with the technical man, however, ask him bluntly whether he or his superior can do what you want or whether some other agency also is interested. If he names somebody else, ask whether he would object to your also visiting that man. Solicit advice on how to deal with this other man, forming your own judgment on the soundness of the advice. It will be your obligation to keep each side informed of your dealings with the other without either violating confidence or seeming to.

The steps that must be taken in most successful efforts to get the government to do something that costs money involve: making out a precise request with the help of the operating man in the appropriate agency, getting the support of the advisory council if one exists, and finally persuading the Budget Bureau. If you are picking up the check on government work, be sure to remit in advance; otherwise nothing will happen.

A regulatory agency gets hundreds of inquiries about its rules. To find out how they apply in a given case, write your question as precisely as possible to the general counsel. If it's too complicated to put into a letter, put in enough to identify the situation and ask who handles such things. If you're after an amendment to a written regulation, you must present full evidence at open hearing. If you want a mere interpretation, the official has power to make it.

The agency official who sits down with you will have explored your record and the record of your company beforehand. He may not tell you all he knows about you but instead may let you, if that's what you're bent on doing, state a case contrary to the written record. It's best, therefore, to look up your own record with a regulatory agency before you deal directly with one of its men.

In telling your story to your Congressman or Senator, be sure, above all, to tell *your story* and not to waste time by generalizing about Industry or the Good of the Country.

You may be asked to tell it all to the Senator's legislative assistant. If so, don't feel that you are being brushed off. The legislative experts actually handle things, just as P-6s run the government and top sergeants ran the war.

When a Congressman friendly to your cause invites you to testify before a committee hearing, he wants you first to put a definite case into the record and second to brief him on details. He will have to argue your case in an executive meeting of his committee and on the floor. He will be asked hard questions, to which he wants you to supply the answers.

If you are testifying about something controversial, which people discuss only in high temper, you must be prepared for gruelling cross-examination from the Congressmen who disagree. They will first of all try to tear your argument to pieces. If you hold up, they will proceed to discredit you. First, you will be quizzed on your general information about the subject, the point being that you are not really an expert. Next, your record will be taken up; this will have been investigated in advance. If it can't bear intimate probing, don't testify on hot subjects. The record may include long ago statements or actions quite different from those you now advocate. You will be asked the precise moment at which you changed your mind. To prepare for this sort of thing, ask yourself: Suppose I were at the other side of the table, what would I try to bring out?

It is customary to supply prepared statements. Some committees insist on them. These should be supplied for

each member as well as for members of the committee staff. If you want publicity, you should prepare an additional 50 or so for the press. Copies should be given to the committee clerk a day or two in advance.

Prepared statements and press releases give your opposition time to prepare questions. The opposition, if it has time, will get contrary expert opinion on what you have written.

In talking before the committee, it is considered bad taste to make such statements as "Congress must pass this bill." Never say "Congress must." They don't like to be told what they must do. Instead, you tell your story and say that you think such-and-such would be useful or terrible as the case may be, adding, with appropriate humility, that Congress alone will decide what is to be done.

And remember, in conclusion, none of the foregoing recommendations is to be followed without qualification. No good salesman would follow a sales talk to the letter if he noticed an unfavorable reaction from his customer. Neither would a good negotiator take these tips too literally.

BY JEROME SHOENFELD. *Sales Management,* April 15, 1949, p. 37:3.

Office Management

Topside Specifications for the Office Manager

THE office manager's job grew like Topsy. In its earliest phase, the old nineteenth century chief clerk with his alpaca coat, Spencerian hand, and green eyeshade simply took on additional responsibilities. At the start of the twentieth century, there was hardly an organization chart that showed "Office Manager." Even now in many organizations the functions and responsibilities that belong to the office manager are distributed among several individuals.

In view of today's increasing emphasis on cutting costs in every phase of business operation, however, management is focusing more attention on the office to determine where savings can be realized and better methods established. Today management has real expectations of the office manager:

First, the oldest and most obvious qualification management expects in an office manager is the ability to discharge a long list of responsibilities. Here the office manager has a difficult juggling act to see that all the work required is done as scheduled, and that he still has some time to think and plan. These specific duties include:

A. *Ten Common Responsibilities Where the Office Is Attached to the Factory.*

1. Lay out the space provided for the office; assign positions to various office departments; and arrange the equipment, furniture, and fixtures.

2. Operate a "correspondence shop," comprised of employees whose duties include taking dictation, transcribing, typing, duplicating, mailing, and filing.

3. Operate departments having to do with other kinds of internal and external communication, such as receptionist, telephone switchboard, telegraph, teletype.

4. Specify and approve office ma-

chines, appliances, furniture, and fixtures.

5. Operate a stationery supply salesroom and warehouse.

6. Administer and interpret company policies as they apply to office personnel, and frequently participate in formulating these policies. This may involve job analyses and salary standardization. The office manager may have a deciding vote in hiring, firing, or transferring office personnel. He may be responsible in whole or in part for a company practice manual.

7. Directly or indirectly train office personnel not only to do their present jobs but also to prepare for advancement.

8. Circulate magazines, or operate a clipping service of excerpts and articles to keep executives informed.

9. Review periodically each office procedure, method, or routine.

10. Establish yardsticks to measure and control the productivity of office personnel.

B. *Four Common Responsibilities Where the Office Is Remote from the Factory.*

11. Maintenance of the office building, including responsibility for washrooms, janitors, watchmen, elevators, window cleaning, and assignment of garages or parking space.

12. Improvement of office working conditions, including ventilation, noise abatement, and air conditioning.

13. Operation of one or more cafeterias.

14. Supervision or coordination of branch offices with regard to company policies and salary standardization.

C. *Among other less common or "side-line" responsibilities of the office manager are the following*:

Study tax laws for possible savings, including state franchise laws affecting choice of location of offices.

Handle draft deferment matters for office personnel.

Study company insurance needs, and bonding of trusted employees.

Process personal income tax returns, auto registrations, personal investments etc., for traveling executives.

Second, management expects an office manager to maintain a healthy *dis*satisfaction with what has been done and the way it is being done in the office. He must be aware that the fact that a certain routine has always been followed in the office doesn't make it sacred.

Third, management expects an office manager to find and train helpers as key personnel and supervisors of office departments. Modern, progressive managements are quickest to advance executives who make their own advancement possible by having other people trained and ready to step into their own shoes. Before selecting subordinates, the office manager ought to analyze his own job and his own qualifications for the job just as carefully as he requires that job analyses be made for the department heads who report to him. He ought to know and recognize his own limitations and try to complement them by surrounding himself with others who have the skill and knowledge he may lack.

Fourth, management expects the office manager to apply himself to tomorrow's problems once he has trained and prepared his subordinates to settle minor problems and make day-to-day decisions.

This presupposes a *fifth* qualification—that the office manager be willing and ready to delegate authority to his associates and subordinates, commensurate with the duties and responsibilities which he passes along to them. This is frequently the acid test, where the man in question demonstrates whether he is still a chief clerk or has

become an office manager. Management has been defined as "getting things done through the efforts of other people." A little man with a little mind can be a martinet. He can have every paper clip in its place and a place for every pin. But he is not a good office manager unless he spends more time in the development of people than in the direction of things.

Sixth, management expects the office manager to maintain a smoothly running office. This usually means that his office department heads are good supervisors.

Seventh, the office manager should know how to build an organization that enables people to work together—in groups—as effectively as they would work alone.

The *eighth* executive qualification of an office manager is that he be a dynamic leader. Leadership calls for momentum and momentum means change. As a leader, a good office manager will not become submerged in details nor be led hither and yon by his subordinates. He will point the direction and set the time for each needed change.

Ninth, an office manager is expected to be an approachable human being who has some sense of humor and a personality. None of us in management has yet found the key that unlocks people's ambitions, energies, and wholehearted cooperation. Neither have union leaders nor government officials. We in management want to find them first.

Tenth, management wants the office manager to have brain power to do original and creative thinking, and to schedule enough time to do it. He should use and foster the research method, the scientific spirit of inquiry, experiment, and analysis.

The *eleventh* qualification that management expects of an office manager is that he earn the respect of those who work for him. This calls for judgment, tact, maturity, and an orderly mind.

Office managers occupy a strategic position in management. They are assuming more and more stature so as to deal successfully with people as well as with things. They are in a good position to advance in the over-all management of any company. It is unimportant where they stand today on an organization chart, whether they report direct to the president or whether they report to a controller or treasurer or secretary or personnel executive who can devote a larger share of his time to office problems. It doesn't matter where an office manager really is so long as he has an opportunity for recognition, growth, and advancement.

By Lee McCanne. *NOMA Forum,* May, 1949, p. 8:3.

Look at Your Overtime Statement

The Tennessee Eastman Corporation (Kingsport, Tenn.) has found that an examination of monthly overtime statements proves invaluable in pointing out where excess clerical help might be found. The firm operates on the theory that where no overtime exists for a group of people, the individual job loads can hardly be equal to a full day's work. If the employees were carrying the proper workload, it would be necessary for them occasionally to work overtime to handle peak work or special assignments.

It is simple arithmetic to figure that when time is not used during regular working hours, the full value of a person's time is not obtained. When an employee is paid time-and-a-half for overtime, only the half-time premium pay is excess cost. Thus it takes two hours of overtime work to make up a single hour of time lost during the regular day. It is cheaper to incur a small amount of overtime than forbid it. We find a quick clue to clerical efficiency in the overtime statement.

—C. G. Smith in *The Office* 4/49

Handling More Work in the Office

TODAY the industrial revolution is spreading into the business office with the same breath-taking speed and thoroughness with which it took over the factory.

To a business man, this change in the office has three important implications: (1) It has created a boom in the office equipment industry—a boom that could keep a lot of its steam even in a depression. (2) It is making big business more workable. (3) It has put the office on the threshold of almost unbelievable advances.

It has long been almost a cliché that the man wielding a pick and shovel can no longer compete with the man operating the power shovel. Equally true, but less obvious, is a newer fact: The best bookkeeper figuring with pen and ink can come nowhere near competing with a high-school girl figuring by machine.

Office machines are the machine tools of management. Without them, modern management would be almost as helpless as the machine shop without the lathe, the auto industry without the assembly line, the steelmakers without the open-hearth furnace.

The variety of office machines is almost unlimited. They save space, time, money, effort, or all four. But in making these savings, they often make it possible to do jobs of a quality and scale that couldn't be done at any price without them. There is, for example, microfilming equipment which keeps records in a tiny fraction of the space once required. Similarly, the operation of the electric typewriter takes only some 6 per cent of the physical energy required to operate a standard typewriter. Because this leaves a typist less fatigued, it increases her accuracy while increasing her output. Dictating machines cut a secretary's letter-writing time in half, leave her free to do other jobs. Bookkeeping machines take over fagging, morale-breaking routines — and handle them more accurately. In a few hours high-speed calculators work out vital business problems that would take a mathematician so long the problem would be obsolete by the time he had solved it.

Management often figures that it has cut back costs about as far as it can on the production level. But in the office you can find plenty of glaring examples of waste. One of them: Before the war, an automobile company made a special engineering cost study. Because of human errors along the way, the study had to be done over 76 times. Today a machine does the job once — cheaply, speedily, accurately.

Without office machines, many big companies would not be able to function at all. Costs would be staggering. The companies literally could not do many jobs essential to their existence.

Take, for example, Prudential Insurance Company of America. One of the world's biggest corporations, Prudential has 45,000 employees, 27,000,000 policyholders, handles as much mail as a city of 135,000 people. It has 28 field offices which deal only with Prudential investments, 1,200 other field offices which handle insurance.

Most of Prudential's big machines are calculators made by International Business Machines Corporation. These operate on the punch-card system — that is, holes are punched into cards to represent information. Through a preset arrangement of holes, a single punch card can hold 80 different facts. (Remington-Rand's punch card holds 90.) In the case of Prudential, these

facts are information about its policy-holders.

The significant thing about the punch card is that its information is not fixed or static, since the calculators can be set to use the information in almost any way that's needed. Automatically, these machines will take variables into account. For example: In loan calculations, the amount of principal and interest usually changes from month to month. If the original loan data is correct on the card, the machine can "read" the holes (through brushes which make electrical contacts) and take account of the monthly changes automatically.

Prudential figures that its office machines have saved the company at least $10,000,000 a year in payroll alone.

Machines which can sort, calculate, tabulate, and do other operations accurately and at high speed have an obvious place in big business. But what about the small business man? Competition forces him, too, to have accurate information in a hurry and at low cost. But the machines used by big companies like Prudential would cost him more than they are worth.

The dilemma is not so sharp as it sounds. For one thing, there are machines far less complex which will do almost as much. They can be bought for a few hundred dollars. But there are two main differences between these machines and the big boys: (1) They are not so fast; and (2) they require more manual operation and human participation — and so there is more chance for error.

But even the I.B.M. machines are not completely out of the small business man's reach. He can get the use of them through 80 I.B.M. service bureaus throughout the country.

The best example of this is the so-called "package payroll" plan. Say a business man has 100 people working for him. The I.B.M. service bureau sets up three cards for each employee: (1) an earnings card, (2) a deductions card, and (3) a summary earnings card. At each payroll period, the employer simply sends the service bureau the number of hours each employee worked. This number is punched into the card — and the machine figures out the wage from there. The cost for this service is 15 cents per worker. I.B.M. sets a minimum of $8.25 for each payroll period.

Spectacular as many present-day office machines are, they have their faults. The more complicated the machine, the more likely it is to break down. If a single wire gets loose in a big calculator, the whole computation goes wrong — a fact you discover when the job is finished. If the punched cards themselves warp, or swell from humidity or collect static electricity, the machine stops working. If a punching machine gets out of alignment, the holes will be in the wrong places and give the wrong answers. And there is always the human error—putting the wrong stack of cards in the machines.

Large sectors of business and industry still strongly object to office mechanization. They argue that offices have not yet become like factories; the work is still by no means entirely routine; human beings perform more efficiently than machines in office work.

Some opponents of the punch-card system say that the worst thing about it is the lack of the personal touch. Unless management keeps an eye peeled, its punch-card system can start costing more than it saves.

Best examples of this kind of breakdown in efficiency are the subscription departments of some magazines. One anti-punch-card executive complained that he had once ordered a year's subscription to a big weekly magazine. He

got 22 copies of it the first month—and never heard from the magazine again.

The trend toward office mechanization scares a lot of people. They think that machines which work so efficiently and so fast can't help but bring unemployment among white-collar workers. As a matter of fact, exactly the reverse has happened so far. Ever since the 1870's office employment has been steadily rising — rising faster, in fact, than any other kind of employment. It is still going the same way, despite office machines. Though technological unemployment in the office has been no real problem so far, the question bothering many is: Will it become a problem in the future?

The mechanical brains of today and tomorrow strike the layman as frighteningly perfect. They aren't; they have the same foibles and failings as any child. The human brain must still guide them and set up the data for them.

But engineers can already visualize an automatic translator, which will read in one language and write in another. There may be an automatic typist, which can read even illegible handwriting and type it out correctly. An automatic stenographer may listen to sounds and type them out as correctly spelled words. And, fantastic as it may sound, scientists think that some day it may be possible to develop a machine which will even translate the sounds made by birds or ants into English.

Business Week, May 28, 1949, p. 66:7.

Mystery in the Office

I am an office mystery.

I am never seen, but I am everywhere.

I am always on the job and often forecast important events.

I make and unmake morale, reputations, and cooperation, but I am seldom blamed for my mistakes.

I have no responsibilities, and yet I am one of the most powerful molders of opinion.

I am quite as influential as other aspects of management, but I am never on an organization chart.

I am best known below administrative levels, and though I criticize those in authority no one can fire me.

I am rampant where administration is most severe and yet I am active too when it is most kindly.

I am industrious wherever two get together and I whisper with their laughter, disappointment, and fear.

I add humor and anger to the office as I pass with the speed of sound.

I am basic in human nature and you must accept me.

I grow right behind you.

I am the office grapevine.

—*The Pillar* (Northwestern Mutual Life Insurance Co.)

• DIMINISHING ABSENTEEISM: One effective method of handling absenteeism in some plants was recently reported by the Peoria Employers' Association. Come payday, in addition to the actual pay checks, non-negotiable checks are filled out in the amount of earnings lost during the period because of absenteeism. These are mailed to the employees' homes and it's a safe bet that wives have something to say about the money that didn't come in! It has been noted that absenteeism began to decline.

—*Supervision* 7/49

Recruiting, Selecting, and Indoctrinating Clerical Employees

THE most important asset of a business is its personnel. The manner in which we select employees and introduce them to our organizations, their assistants, and their specific assignments has an important bearing on our rate of employee turnover and economy of operations.

To get an up-to-date picture of management practices in recruiting, selecting, and indoctrinating female clerical employees, The Office Executives Association of New York, Inc., recently surveyed 96 companies in the New York area. Presented below are some of the main findings.*

The positions of junior clerk, typist, and stenographer are most frequently mentioned by respondents, with the position of typist showing the greatest number of placements. This appears to reflect the experience of many of the firms cooperating in the survey that there is still a heavy demand for typists and in many instances an inadequate supply.

The following five sources of supply are most frequently used, in the order given: (1) commercial employment agencies; (2) voluntary recommendations by company employees; (3) blind advertising in newspapers; (4) non-profit employment agencies; (5) company representatives visiting schools and colleges. As might be expected, the smaller companies make use of commercial employment agencies to a greater extent than do the larger firms.

Under the Minimum Education Requirement, the four-year high school graduate is, as would be expected, in the majority.

Medical examinations are used by substantially more than 50 per cent of respondents, especially the larger companies. The full-time medical examiner is used by most of the larger organizations.

The clerical aptitude test has become increasingly popular; 23 companies indicate that they commenced using clerical aptitude tests during the past four years, while 11 have been using them for varying periods up to 10 years.

Clerical performance tests are also being used to an increasing extent. Twenty companies indicate that they have commenced using such tests during the past four years, while 15 have been using them for varying periods up to 10 years.

It is particularly interesting to note that the majority of respondents conduct an interview for the specific purpose of appraising personality, general social characteristics, and job interest. Forty out of 91 companies conduct this interview according to a formalized plan, and 48 out of 90 have a written appraisal prepared by the interviewer, who also recommends specifically for or against employment.

The returns clearly indicate the importance to the respondents of school, college, previous employer, and commercial credit references. However, only 18 companies out of 94 report that they secure *all* references before appointment. Twenty-six companies out of 74 indicate that when they employ prior to receipt of all references, the employee is asked to sign a statement that the appointment is subject to all references being satisfactory when received.

With regard to indoctrination practices, the survey showed: Of 92 firms answering the question "Does the employment interviewer who gives the initial interview assign acceptable applicants to jobs?", 55 said yes, 37, no. This practice is more predominant in the smaller organizations; the larger firms are more inclined to assign an interviewer specifically to placement work. In 67 firms, written job descriptions supply the person responsible for placement with necessary employment data; three firms said this information is supplied by the department head; seven, by direct supervision. Fifty-five respondents use an employee handbook. In 93 firms, the new employee is, immediately upon placement, introduced to his department manager; in 92 he is, on placement, introduced to his immediate superior and to fellow workers. In only 31 firms is a check list provided for management to insure full coverage of the indoctrination process.

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* From *Personnel and Training Series Research Project Report No. 4,* The Office Executives Association of New York, Inc., New York, 1949. 36 pages. $2.00. (Available from Miss E. Harper, Scott Foresman & Co., 114 E. 23 St., New York 10, N. Y.)

What Is Management's Right to Manage?

This article by Neil Chamberlain, of the Yale Labor and Management Center, will startle some managers who have been loosely assuming that their powers have a firm legal basis. Mr. Chamberlain does not submit the article, and we do not publish it, in any spirit of advocacy for the further demolition of management prerogatives. As he himself says, "This view does not . . . lead to the conclusion that management should necessarily accede to the union's demand for a voice in particular aspects of the managerial function." Management's refusal may indeed have a "salutary effect." But in the light of the tendency of collective bargaining to encroach further upon what management once considered its sacred preserve, it is well to have a clear idea of just what the theoretical foundations of the preserve may be. This end, we believe, is well served by Mr. Chamberlain's article.—From the editorial introduction to this *Fortune* article.

THERE are few companies in the United States in which the issue of managerial prerogatives has not been raised at some time during the course of collective bargaining negotiations.

This question was dramatized recently in the automobile industry by the conflict between the Ford Motor Company and the United Automobile Workers about the speed of assembly lines. Control over assembly-line speeds was also in dispute in the prolonged Chrysler strike of 1939, when Herman L. Weckler, vice president in charge of operations, stated:

> Management cannot abdicate its responsibility for any aspect of this business, whether it relates to labor, to engineering, to production or to selling. It cannot consent to sovietize the plants.

And the General Motors shut-down in the winter of 1945-46 brought the pronouncement from H. W. Anderson, vice president in charge of personnel, that the "functions of management cannot be delegated to anyone not responsible for the continuing of the business. They will not be surrendered to the union."

The nature of the managerial prerogative in relation to the union was one of the points on which the President's post-war labor-management conference broke down, with union and management committee members rendering separate and diametrically opposed reports. Ira Mosher, then president of the National Association of Manufacturers, subsequently asserted:

> . . . We drew up a list of some thirty-odd specific acts, such as the determination of prices, accounting procedure, and so forth, which it seemed clear to us must be reserved to management. Labor refused to accept a single one, and we were told . . . the reason . . . was that at some future time labor may want to bring any one of these functions into the realm of collective bargaining.

Mosher's statement points attention to one reason why the conflict remains unresolved. If the "right to manage" can be defined only by a listing of "specific acts, such as the determination of prices," no general principle is available to serve as the standard for inclusion or exclusion of such specific acts. *Does* any principle of management rights exist to provide the needed standard? There seems ample reason for believing that in the minds of many managers the right of management is virtually synonymous with their right to make business decisions. Weckler's concern for "responsibility" and Anderson's for "the continuing of the business" are in line with this view. If this is to be regarded as a principle, however, what can be said of management's willingness to bargain on wages, hours, layoffs, promotions, and

the host of other matters that go into the modern collective-bargaining agreement? Consider wages, for example. Is not the size of the wage bill a business decision of first importance? Prior to the advent of the union in an industrial enterprise, is not one of management's chief problems—in charting the continuing success of the business—that of bringing its cost and price structures into line, with wages an important element of costs? Does the introduction of collective bargaining make this any less a business decision? Why is managerial prerogative not raised as a barrier to negotiation on the subject of wages? Is the size of the wage bill of different order of significance from the speed of assembly lines? What principle bars negotiation of rates of operation and permits bargaining on wages, if both are managerial decisions?

The answer appears to be that no principle is involved, but rather that the process of inclusion and exclusion suggested by Mosher is at work. Wages have become accepted as "legitimate" matters of collective bargaining, while production speeds have not. In 1851, the New York *Journal of Commerce* editorialized that it would not yield "the control of our business to the dictation of a self-constituted power outside of the office," in the matters of hours and apprenticeship. Today both of these subjects are commonly to be found in collective agreements. In 1945, Inland Steel and other companies fought the union's demand for a voice in a company pension plan. Today welfare programs, including pensions, have become rather widely accepted as a bargaining matter.

At the root of the problem of management's right to manage is simply the increasing insubstantiality of management's ability to maintain it. It has been said that the right emerges from the laws of private property, in which management as the actual or representative owner has the privilege of determining the use to be made of its property. The trouble with property ownership as a conferrer of authority, however, is that it gives command only over *things*. This involves no special difficulties in a society of small property-holders and individual proprietorships, for control over things is all that is needed to produce for, and sell in, the market. But when business enterprise assumes a corporate form and requires the cooperation of large numbers of people performing specialized functions, control over things ceases to be sufficient. Except in authoritarian societies, people can be managed and directed only with their own consent. Cooperation of others, without which the property right is reduced to a power of disposition, cannot be commanded. It can only be won by consent. The property rights of the stockholders, exercised for them by management, can be made meaningful only with the cooperation of all those who are actually needed to operate the business, including the workers.

But there is no legal compulsion upon the workers to cooperate. There is no legal statement of the terms on which cooperation must take place. The definition of those terms is left directly to the parties involved, and there is nothing in the law to stop the union from demanding as the price of the cooperation of its members a voice in some matter previously independently determined by management. Since property rights do not give command over others, management may find it essential to share its authority in certain matters of business operation as a means of inducing cooperation, in order to maintain the value of a going business. In *what* matters might management have to share authority? Potentially none would seem to be excluded—whatever matters are deemed important to those whose cooperation is being sought.

What, then, is the managerial prerogative? The answer may come more

easily if management is viewed as a function rather than as a group of people—the function of making and effectuating business decisions. A good working definition of the management prerogative is, perhaps, that it is the power to make decisions and to see to their effectuation within whatever framework of discretion may exist. If the framework changes, so does the prerogative. But the power to make a decision is not the same as the power to carry it out. To translate decision into accomplishment requires the assent of those whose cooperation is essential.

In winning that assent it may be necessary to reach some agreement with the union that represents the employees. The decision becomes a collective decision, and establishes the framework within which the management prerogative at lower levels of organization must be exercised. It may thus be the case that the management prerogative can be exercised only through union participation, if management is regarded as a function. Or to put the case another way, the management prerogative—in the sense of power to carry out decisions made—may in some instances be preserved only if the union joins in making the decision.

Looked at in this fashion, it becomes evident that collective bargaining is in fact one method of management. It is a process for making business decisions that can be carried out. It is no guarantee of good decisions or of proper effectuation — any more than any method of management can provide such a guarantee. But it may be, in specific instances, a more appropriate method of management than some other.

This view does not, of course, lead to the conclusion that management should necessarily accede to the union's demand for a voice in particular aspects of the managerial function. The exclusion of certain subjects from the process of collective agreement or the inclusion of other subjects within its terms must be justified on the basis of all the relevant facts. The only question involving any principle of the management prerogative, however, is whether the union's participation in the decision-making process is essential or conducive to the effectuation of the decision.

There is thus perhaps some salutary effect in management's resistance to the union's expanding role in the making of business decisions. It may bring weight upon the unions to perfect their organizations so as to improve their business performance; and it may thus provide conviction to those now skeptical that sharing managerial authority with a union carries the advantage of inducing compliance with decisions once reached. No benefit would seem to inhere, however, in a doctrinaire conviction that certain areas of control must be preserved inviolate of union influence. On any particular subject, good management may some day if not now suggest an opposite conclusion.

This conception of the relationship between collective bargaining and the management prerogative suggests a further conclusion. It becomes evident that if bargaining is management—one form of it—business interests might well be persuaded that its improved practice will help rather than hinder business performance, and unions might be led to believe that increased participation will be facilitated by paying attention to the procedures they employ. The study of collective bargaining as one method for making business decisions might lead to conclusions for its greater effectiveness, which would benefit all concerned. In such an analysis unions would have to be viewed not as something falling outside of the structure and processes of management but actually included within its terms.

By Neil Chamberlain. *Fortune,* July, 1949, p. 68:3.

Age: Help or Hindrance?

ALL those concerned with industrial health will have to become interested in the problems of senescence, whether they wish to or not. The problems created by an aging population are here; they are rapidly becoming acutely urgent. Procrastination, wishful thinking that some one else will solve the problems, and delusional denial that a difficult and unprecedented situation exists have already continued too long. Exhaustive (and exhausting) statistics are unnecessary for demonstration of the urgency of concern over the place of the older worker. It should suffice to point out that in the census decade from 1930 to 1940 the population of the United States increased 7.2 per cent, but that the numbers of persons aged 60 or more increased 35 per cent, or at nearly five times the relative rate. Furthermore, the median age of our population rose from 26.4 years in 1930 to 28.9 in 1940.

An increase of 2½ years within a single decade constitutes handwriting on the wall that must not be ignored. It has been estimated that in another 40 years more than 40 per cent of our population will be over 40 years old. Today there are approximately 11 million persons aged 65 or more in the United States. Average life expectancy has risen from 47 in 1900 to nearly 67 today, or a 20-year increment in half a century.

Longevity is here. It will increase. What does this mean to industry? In brief it means that industry must either find employment for older men and women *appropriate to their capacities* or carry a major share of the rapidly growing burden of supporting them in tragically wasteful idleness, either through private pension funds, or worse, through crippling taxation. The wise choice should be obvious.

The older worker's balance sheet includes on the liability side of the ledger such factors as (1) increased frequency of chronic progressive disease, (2) diminishing muscular strength, (3) reduced speed of reactions, and (4) greater time loss following accidents because of slower repair. Counterbalancing these depreciations are the assets of (1) reduced absenteeism, (2) greater loyalty, (3) increased skill, (4) reduced accident frequency, and (5) enhanced judgment derived from experience. Dr. Ross McFarland has emphasized the fact that older workers are particularly valuable in situations where supervision is minimal.

The charge of fixation and resentment to change has been laid to involution due to aging. However, personality fixation is more directly associated with the habit patterns of life than with the length of life. Constant repetition of the same procedure (whether physical or mental) for many years creates and fixes the *habit* of rigidity. If an individual changes his occupation, viewpoints, responsibilities, and techniques from time to time, flexibility and the ability quickly to learn new techniques and disciplines are retained long into the seventh and eighth decades.

—EDWARD J. STIEGLITZ, M.D., in *Industrial Hygiene* 5/49

Engineering Starting Salaries

STARTING salaries for graduates of the New York University College of Engineering increased in 1948 by 11 per cent over the previous year, according to findings of a survey made among 365 graduates of the college from the class of June, 1948. Graduates were asked the nature of the position they held, how it was obtained, and the starting salary. The average starting salary was $252 a month, an increase of $25 over the 1947 average. The largest starting salary increase, 16 per cent, appeared to be in the aeronautical and administrative engineering fields. Of the 177 persons returning questionnaires, 72 per cent took jobs in private industry; 16 per cent went into civil service posts; 9 per cent enrolled for graduate courses; and 3 per cent were classified as miscellaneous. The survey revealed that 60 per cent found jobs outside of New York, whereas in 1947, 61 per cent obtained positions in the metropolitan New York area.

—*Mill & Factory* 3/49

● WHILE an open mind is priceless, it is priceless only when its owner has the courage to make a final decision which closes the mind for action after the process of viewing all sides of the question has been completed.

—H. W. ANDREWS

Some Implications of Collective Bargaining on Pensions

THE refusal of the Supreme Court to review the Inland Steel case gives unions the legal right to demand that employers bargain concerning new pension plans or consider demands for changes in present plans. There is, of course, no legal requirement that employers accede to any such demands, but the fact that they are now compelled to bargain on this issue will unquestionably have a significant effect on the conditions and atmosphere under which pension plans will be designed, installed and maintained.

Hitherto, deliberations involving pensions have generally been calm, orderly and scientific. Much thought was given to the financial realities involved. Planning was carried on with due regard to what was possible and practicable under any given set of circumstances. If, initially, the benefits were unavoidably on the thin side, the company might later see its way clear to liberalize them. However, under management auspices, the cardinal point in all deliberations was that once adopted, a pension plan would become a permanent fixture. Any employee who stayed with the company to retirement age would (barring an outright catastrophe) receive a pension. Every step in the planning and administration of a pension plan was the undivided responsibility of the company.

Under the conditions imposed by the Inland Steel decision, a demand for a pension may frequently have to be considered under pressure. In the heat of controversy there is grave danger that seemingly innocent proposals may lead to the adoption of a plan which in years to come may impose an intolerable financial burden on the company. A plan adopted under such conditions may omit provisions which experience indicates to be essential. But perhaps most regrettable of all is that under bargaining conditions pension demands may come to be regarded as trading points to be matched against other demands in the give and take of negotiations. That point has such far-reaching implications that it deserves the most serious consideration by both employers and unions. Let us, therefore, examine it more closely.

As a basic requirement for a satisfactory agreement on pensions, both union and employer should admit at the outset that they are dealing with a problem which is fundamentally different from those of wages and working conditions. The values involved have little to do with current living costs, prices or profits. A pension plan provides long-range promises of future incomes which must be paid regardless of the economic conditions prevailing at time of payment. The measure of a plan's real value lies in the adequacy and certainty of those future payments. The keynote is *permanence*—not expediency—for only through regular contributions over many years can adequate pension reserves be established.

A fair test of the proper attitude would be to ascertain whether the pension plan cost is viewed as something which is being added to the basic wage structure or as merely a "fringe" concession—the last to be adopted and possibly the first to be dropped when times are bad. For example, the union might be asked this question: "If at some future date the company is faced with the necessity of cutting costs, and employees must bear some of the burden of retrenchment, will you be prepared to accept a cut in take-home pay so that the pension plan may remain unimpaired?" Unless the answer is an

unqualified "Yes," the proposed arrangement is a trading point, not a bona fide pension plan.

Employees should be made to understand and accept the fact that the company's contributions and their own contributions (if such are required) are not savings in the ordinary sense of the word, to be drawn out or diverted even in the event of pressing need. They are funds which have been *spent* for pensions, just as current wages are spent for rent and groceries. The only difference is that, should an employee die or his services be terminated before his scheduled retirement, his benefits are canceled, and his contributions are returned. Both the plan and the union agreement should specify that there can be no recapture or diversion of contributions as long as retirement is a possibility, and that otherwise the funds of the plan can be used only for the payment of pensions so long as any unliquidated pension liabilities remain.

The funding of a pension plan, to carry assurance of true permanence, must be established on a sound and adequate basis.

The employer should not allow himself to be placed in the position of facing pension demands without thorough preparation, made well in advance. He should be equipped with dependable knowledge of probable demands, and the long-term costs involved. He should be armed with an understanding of the procedures which are workable and those which conceal pitfalls. Such preparation cannot be advantageously begun and completed while bargaining is in progress.

If employers and unions will recognize and be guided by these basic principles, and if a foundation has been laid for intelligent discussion, then a proper atmosphere will have been established in which agreement, satisfactory and beneficial to both company and employees, may be reached.

From *The TPF & C Letter* (Towers, Perrin, Forster & Crosby, Inc.), June, 1949.

Safety and Health Clauses in Union Contracts

HEALTH and safety provisions in union agreements have several objectives, including: (1) to pledge the employer to maintain reasonable health and safety standards and to comply with government regulations on health and safety; (2) to stimulate observance, by company, union, and by all employees, of health and safety rules; (3) to provide for union participation and to enlist employee cooperation in safety and accident prevention.

Government regulations — federal, state, and municipal—require most employers to observe minimum safety, health, and sanitation standards in mines, mills, factories, and other workplaces. Workers' concern with these matters is shown in the frequency with which reference is made to health and safety in collective bargaining agreements. Many agreements refer to safety and health in general language; e.g., the employer voluntarily agrees to provide and maintain adequate facilities or to abide by governmental regulations.

Safety, sanitary, and fire regulations are sometimes referred to or listed in detail in the agreements. Such rules may be jointly established or issued solely by the employer, and are usually posted or distributed to employees as part of the plant rules. The union may

pledge employee cooperation in abiding by such rules. The contract sometimes states that non-compliance may bring disciplinary action:

> Repeated violations of safety rules on the part of any employee shall be proper cause for discharge.

Provision is often made for safety committees, composed of union representatives only, or having joint union-employer representation:

> The union will cooperate with the company in encouraging employees to observe all safety regulations provided by the company and to work in a safe manner. To that end a Safety Committee of eight (8) shall be maintained, four (4) of whom shall be employees designated by the union and four (4) by the company. The function of such committee, which shall meet once every month, shall be advisory, and if the committee or any member thereof believes that any conditions are unsafe, such findings shall be reported to the Safety Director for proper disposition.

It is the function of such committees to make regular factory inspection tours; to suggest specific safety measures and improvements; to investigate safety and sanitation complaints and hazards; and to help enforce safety regulations. Such committees at times may request arbitration of disputed measures or suggestions.

Periodic safety inspection tours by a company representative are sometimes specifically required.

Special protection is often provided for workers in hazardous occupations or in industries in which the danger of occupational diseases is present. This may include provision for: (1) special protective clothing or equipment; (2) an adequate number of experienced workmen; (3) rest periods during hazardous or fatiguing work; or (4) medical equipment to treat an industrial disease.

In some agreements, provisions like the following appear:

> The employers agree that every reasonable effort will be made to make provisions for the control of the dust hazard in the shops.
>
> The employer agrees to furnish one (1) pint of milk each day to all employees covered by this agreement as its contribution to maintenance of the employees' health standard.
>
> Employees hereunder shall not be required to perform work on equipment outside of hangars during inclement weather when the company can make a hangar or sheltered space available. This requirement does not apply to emergency, line work, or work on airplanes for immediate service.

In addition to state regulations that apply to industries or occupations in which the safety or health of the workers may be affected, agreements often contain provisions for the protection of the public welfare as well as of the workers. Agreements in the food industries, for example, may require the employees to maintain minimum standards of health or personal cleanliness, or to pass periodic medical tests. In trucking and in public transportation, the employer may be required to insure and adequately equip all vehicles with safety devices for the protection of the driver and the public.

Many agreements require that the employer shall maintain first-aid facilities in the plant. The employees may only be required to have first-aid kits accessible, with a designated employee or trained first-aid attendant in charge. In large plants, a kit may be required in each department. Some agreements specify that a nurse, or doctor and nurse, shall be in continuous attendance or readily available. Others require the employer to provide an adequately equipped first-aid room with a competent person or persons in charge. Sometimes a minimum number of workers must be employed before the company is required to have a trained person in attendance. Where multiple-shift operations are in effect, provision may be made for supervision of first-aid facilities on all shifts. In industries

involving hazardous occupations, the employer must make provision for ambulance service or for the maintenance of an ambulance on the premises.

Many agreements provide that all accidents must be reported by the injured employees, usually to the foreman or the immediate supervisor. Since most state workmen's compensation laws require the employer to report all accidents, this is not generally specified in agreements.

Special provisions cover employees in industries which require shifts in temperature conditions—from hot to cold or vice-versa, for example:

> When an employee is changed from a warm to a cold department or vice-versa, he shall be given sufficient time to change his clothing.
>
> No employee shall be required to work in any kiln as long as the temperature where he is to work is unreasonably hot.

A number of agreements provide that lunch facilities are to be maintained by the company, sometimes with union cooperation. These facilities may include in-plant feeding; they may be limited to the provision of hot coffee at cost during the meal period; or they may merely call for suitable eating places to be furnished by the company.

Physical examinations and health certificates are required as a condition of employment in a number of agreements, especially in industries such as food-processing and transportation, where public health and safety are involved, and in industries entailing hazardous work. Some agreements, on the other hand, restrict the right of the company to require medical examinations.

Meeting physical standards through a physical examination may be required of prospective employees only, as a condition of employment, or of present employees as well, as a condition of continued employment. The employer may have the right to require periodic physical check-ups of all employees, or of those in particularly hazardous occupations, either by the company's physician or by a physician chosen by the employee. Some contracts provide that periodic examinations are at the option of employee:

> Yearly physical examinations shall be optional with all employees having seniority, except as hereinafter provided. Employees absent from the plant for one (1) year or more, employees who take another job while laid off, and employees who have had a major surgical operation shall be examined by the company physician before returning to work.

Some agreements provide for such positive health measures as the following:

> The company shall provide for a chest X-ray annually for employees who voluntarily submit thereto . . .
>
> The employee shall be informed as to the negative or positive results of the X-ray. The union shall receive a copy of all future X-ray reports direct from the physician making same for all employees who so designate by signing authorization slips.

As a protection against discrimination and possible disqualification for work when the employer is given broad rights to set physical standards and require physical examinations, the company physician's findings are often made available to the union or to the employees and his decision may be appealed. The worker is also allowed, in some cases, to present a certificate of fitness from his own physician.

From *Safety, Health, and Sanitation Clauses* (preliminary draft of a chapter for a revised edition of *Bulletin 686*), Division of Industrial Relations, Bureau of Labor Statistics, U. S. Department of Labor, Washington, D. C. 1948. 42 pages.

Bowling and the Company Recreation Program

SINCE the time that Admiral Drake calmly picked up a split, chalked his score, and went off to defeat the Spanish Armada, bowling has been a popular sport. So popular, in fact, that it has been invited indoors as a completely housebroken form of exercise. And nowhere has it been more enthusiastically received than by industry and its employees.

A survey of 35 firms, recently conducted by the Associated Industries of Cleveland, revealed the following facts about company-sponsored bowling teams:

Bowling is primarily an intra-plant affair. Departments play departments, and companies do not generally enter teams in inter-plant leagues. When it comes to in-plant rivalry, however, that is intense. This is indicated by the number of teams participating in the program of the average company.

In fact, one manufacturer with a workforce of about 2,600 people has four leagues composed of 76 teams, 16 of which are for the girls. And this is entirely in line with the findings for the other firms polled, when employment is considered. At nearly every company, women are as keen as the men, and have their own organizations. But there is seldom mixed bowling.

As to uniforms: Twenty-one of the 35 companies provide shirts. Two supply dresses for the women, and the cost is $5 and $9, respectively. The price a firm pays for shirts varies, ranging from $2.60 to a high of $7.50 (the average is about $5).

At all 35 companies it is up to the employee to pay the fees for a night's bowling. In addition, he contributes prize money, and this goes from 25 cents to $1, with the average close to 65 cents. Nineteen of the firms put up additional prize money, usually on a per team basis, though some simply give a flat amount; others make up the difference between what the employees have given, and the sum needed. Seven managements also award prizes to winning teams or to outstanding bowlers.

A banquet at the end of the season is the custom with 13 companies, and for this, in six cases, management pays. The employees foot the bill in five instances, and expenses are shared by the firm and the members of the bowling team at two others. At one company, though there is no formal banquet, the president takes the winning team to dinner.

Welfare Fund Question

IN a poll by *Factory Management and Maintenance* on Taft-Hartley Act provisions, the question was asked: "To what extent should an employer who contributes to a trust or welfare fund be represented on the board which controls the fund?" The score was as follows:

	Labor	*Management*
Sole	—%	8%
Majority	3	25
Equal	73	50
Minority	17	1
Not at All	1	1

—*Employee Benefit Plan Review*

● AN UNUSUAL "short-time wage bonus" plan was launched July 18 by Oneida, Ltd., Oneida, N. Y., to cushion the effect of a 32-hour workweek established by the company under a "share the work" policy. Under the plan, the company will make up one-half the difference between actual hours worked by each employee and his regular earnings for a 40-hour week. Thus, an employee who puts in only 32 hours will be paid for 36 hours' work. The plan is effective until September 3, by which time the management hopes business conditions will have improved sufficiently to enable it to resume normal working schedules.

Come Along and Meet the Folks

WITH industry growing daily more conscious of the value of communicating with employees, a few firms are beginning to consider the possibilities of various employee social functions as a medium for presenting the company story. Few companies will want to disturb the pattern of such activities as the employees' annual picnic, particularly if it has been successful over a period of years. Many firms, though, may wish to think in terms of company-sponsored "family nights," at which the management picture may be presented against a friendly social backdrop. It's already being successfully done. The management report shouldn't dominate such an occasion in any sense, but it can be an important as well as a welcome part of it.

Here are some pointers that may prove helpful to management in planning such family nights:

1. *Make the evening primarily a social one.* Music and skits (provided if possible by employees themselves) can start the show off. The report from management should follow. Then let the folks mingle as they please—music is normally provided for dancing.

2. *Let the company report come from a top official.* If the employees have already received copies of the company's annual report (as they should), then the report should be largely interpretative. Orientation movies or slide films prove helpful in setting the stage for the employees' families, who may not know very much about the company. The top official's report is best when it is brief, informal, and simple in presentation. Visual aids help a lot. Try to avoid national economics, except as it affects the local picture. The employee is interested primarily in how the *company* is doing, so he can figure his personal situation for himself.

3. *Issue invitations over the top executive's signature.* It may have to be a processed form letter, but its tone can be friendly and inviting. Either enclose tickets or, to assure an attendance check, ask employees to apply for them. Try to hold the audience strictly to employees and families.

4. *Avoid a questions-and-answers period.* This may be construed as ducking issues by some, and it's certainly possible that heckling could take place. But more important than that is the fact that the gathering is a social affair, that people may become restless, and that questions ought to be raised directly between employee and management. If the executive's report is clear and complete enough, most if not all the questions should have been answered.

5. *Bear the public relations values in mind.* Particularly in smaller communities, a company's family night should be of interest to the press. Let the newspapers know about it, anyway, and judge for themselves.

6. *Pick the right man to handle the details.* A family night can turn into a bad industrial relations gesture if the affair isn't handled smoothly and efficiently. Start it early and plan it well. Give particular attention to the visual aids used in the executive's report—it's a wise idea to pre-test them with a cross-section of employees to see if they're thoroughly understood.

BY ROBERT NEWCOMB and MARG SAMMONS. *The Score,* April 15, 1949, p. 1:2.

What About the Employment Situation?

TO determine the present employment situation and prospects for the immediate future, *Mill & Factory* recently surveyed all types and sizes of manufacturing companies.

Here's what the survey shows:

1. Their employment figures are about the same now as one year ago, 42 per cent of the respondents state. A decrease up to 20 per cent is reported by 28 per cent of the respondents, and a decrease in employment from 21 to 50 per cent by 16 per cent of those answering the survey.

2. The average workweek of their production employees is about the same now as one year ago, 69 per cent of the respondents report. Sixteen per cent state that the workweek of their production employees has declined 10 per cent or less as compared to one year ago.

3. From prospects of business immediately ahead, employment six months from now is expected to be about the same as at present, according to 69 per cent of the respondents. Fewer employees are anticipated by 18 per cent of those answering.

4. In view of the rising number of unemployed workers throughout the country, there is an indication that their employees are improving their productive effort, 55 per cent of the respondents report.

5. A considerable majority, 75 per cent, of the respondents say that there is indication of improved job consciousness on the part of their employees, such as less absenteeism, less labor turnover, fewer grievances, etc.

—*Mill & Factory* 5/49

Time Off for Death in the Family

THE amount of leave with pay granted under collective bargaining agreements to an employee when death occurs in his family varies considerably, according to a recent Department of Labor survey of sample agreements. The survey was made by the Industrial Relations Division of the Bureau of Labor Statistics to determine, first, the amount of mourning time allowable to an employee without loss of pay, and second, what is meant by the word "immediate" when referring to a worker's family.

The clauses covering periods of mourning range from a simple and somewhat indefinite statement to a long and detailed presentation covering all possible emergencies, including the death of non-relatives. One agreement, for example, merely specifies "reasonable time off"; another grants a maximum of 16 working hours; a third allows as much as six days if the death occurs at a location in excess of 200 miles from the plant. Most of the contracts studied allow three days off without loss of pay.

An immediate family usually included parent, wife, husband, son, daughter, brother, sister. One agreement did not define the term. Other agreements included the mother-in-law, father-in-law, brother-in-law, sister-in-law, and grandparents.

—*Labor Information Bulletin* 6/49

FALL PERSONNEL CONFERENCE

The Fall Personnel Conference of the American Management Association will be held on Monday, Tuesday, and Wednesday, September 26-28, at the Waldorf-Astoria, New York City.

Production Management

Today's Trends in Plant Design and Construction

TODAY'S new plants are designed to meet flexible production requirements and low maintenance cost. Moreover, plants are being planned and built with increasing attention to their role in the community pattern.

In preparation for the following roundup of trends, many of America's leading industrial architects, engineers, and builders were asked what they considered significant in recent industrial design. Some highlights of the survey are presented below.

Structural Design. There seem to be no fundamental changes in structural design. However, the limited availability of steel has encouraged the use of more pre-cast concrete work, but this may be a temporary trend that will be reversed as steel becomes more easily obtainable. Limited availability has also encouraged more efficient use of steel in plant construction. One engineering firm states that rigid frame buildings are being employed for the widest range of industrial uses.

Production Layout. There is a growing awareness of the long-range economies to be gained by designing new plants with a view to flexibility of use, states the Austin Company, Cleveland. Thus, while many new plants are being designed to accommodate specific operations—in many instances around completely integrated processes—provision is being made to accommodate any foreseeable changes. In some instances, this is leading to the installation of service-line grids that embrace the entire manufacturing area, so that the equipment layout can easily be changed.

Floors. The Electric Industrial Truck Association reports that industrial manufacturers are prepared to build "ram trucks" to handle 60,000-lb. loads. This means that in new plants built to accommodate such trucks considerably more attention will be given to suitable floor designs.

Walls. There is increased interest shown in insulated metal panels for walls, according to the H. K. Ferguson Company, Cleveland. This is partly due to the present cost of masonry.

The continuing shortage of bricklayers has been responsible for the extensive use of insulated metal panels and asbestos cement, precast or poured-in-place concrete wall construction. There may, of course, be a return to the wider use of brick walls when conditions get back to normal.

Use of cinder block in side walls is also increasing.

Parapet walls are no longer in mode. There is an abrupt cessation of the side wall at the roof line. In many cases the roof slab is continued outward to form a projecting eave. This tends to keep walls cleaner, and such projections are designed to reduce sun glare and heat from the oversized windows in modern factories.

A continuing trend in wall construction appears to be more glass and less masonry. Sash of the continuous type is growing in favor because of the reduced need for supporting jambs.

Roofs. Several new products for

roof decks are on the market. In general, they are expanded mica concrete or other lightweight admixtures which combine both the structural deck and insulation in one unit. The trend toward the use of new materials in roofing is particularly significant in the face of declining lumber prices. It has been stated that in most parts of the country wood roofs will be the exception from now on. Aluminum deck is being used in some plants in place of steel, and has an advantage in that it eliminates the need for painting.

There is a definite tendency toward the elimination of monitors, particularly in buildings covering large areas, mostly because of lower initial cost and reduced maintenance expense.

Where skylights and monitors or sawtooth sections are used, there is increased use of a deeply corrugated thick glass, with or without wire reinforcement.

The use of roof ponds or spray systems for reflective and evaporative cooling is increasing. Installation cost is relatively low, since the roof and flashings must be waterproof in any case. This type of roof is effective in reducing heat transmission. Life of the roofing is reported to be greatly extended, and this type of insulation is said to cut down the amount of ventilation required in summer.

Heating and Ventilating. Radiant heating is growing in importance, especially in the smaller plants. Many of the newer plants are being designed for future installation of air conditioning or forced ventilation.

Interior Painting. One of the cheapest and easiest ways by which plant owners are gaining an immediate advantage in the field of improved personnel relations is through the use of color. A wealth of factual information is readily available on the use of color in the plant. Such simple expedients as standardizing color keys for varying degrees of hazard on machinery can sharply reduce the accident rate. Another factor is the effectiveness of color in combating fatigue in industrial operations. A careful choice of color on interior surfaces, based on the type of work done in a room, has brought about increased production, according to Walter Kidde Constructors, Inc., New York.

Parking Facilities. Offstreet parking is now a must in the consideration of new plant location and design.

Landscaping. American industry today is rapidly adopting a new look by adorning itself with shrubbery, trees, and lawns. Generally, the acreage on which a plant is situated is sufficient to permit the planting of lawns and trees. The use of landscaping reflects the desire on the part of industries to function as good citizens of the communities in which plants are located. This calls for good housekeeping inside and outside the place of business.

Factory Management and Maintenance, April, 1949, p. B-44:2.

FALL PRODUCTION CONFERENCE

The Fall Production Conference of the American Management Association will be held on Thursday and Friday, November 10 and 11, at the Palmer House, Chicago.

Profits in Scrap

"WORN out, unused, or unusable material, machinery, and equipment must be reborn in America's furnaces, smelters, and refineries. Only by this method can we obtain sufficient raw materials required to produce urgently needed armament . . . . It is the waste materials of one plant that provide raw materials for another." —so said WPB seven months after Pearl Harbor.

Today nobody knows how close we are to, or how far we are from, a second all-out war production program. But this much is sure—there has never been a time when it was a greater national risk to waste raw materials than it is now. Even assuming that hopes are borne out and there will be no further war production, this country's reserves of vital materials are critically low.

Before the war, management in general paid little attention to the scrap produced. The individual firm depended on its local scrap dealer to haul the mixture away. Within the plant there was little or no thought given to segregation or preparation. One kind of scrap contaminated another. Scarce alloying agents were lost altogether. Manufacturers did not dream of the cash values they were failing to realize. When the war came and conservation was the goal, blame for the deplorable situation was directed to the scrap dealer, but usually it was the manufacturer and not the dealer who was primarily at fault.

The waste material industry can be called an industry of hidden values. The average buyer of any kind of scrap doesn't always disclose to the seller the ultimate value of the material and the proper classifications in which it falls to bring the highest market values. Nor does he usually furnish any engineering experience to help a producer of scrap turn out a better article from the consumer's viewpoint.

Yet years of experience in all kinds of operations have proved that in an industrial plant it is not difficult to segregate most scrap at the point where it is produced in such a manner that it will arrive at the shipping platform unadulterated and of proper classification for sale and re-use.

In view of this fact it seems paradoxical to see a manufacturer who has the men, buildings, equipment, and know-how to build his product, apparently unable to utilize a by-product efficiently.

Scrap should be segregated at the source, that is, different kinds and grades should be kept separate so that sorting will be minimized. In the large plant, this may mean that scrap from a big department must be kept separate from that of other departments. In smaller plants, machines working different materials may stand side by side and an orderly and easy system must be set up so that the scrap from the machines will not become mixed. Scrap receptacles clearly marked for the kind of scrap they receive is the almost universal and obvious solution to the problem. Some machines are used to work a variety of metals. In this case it is necessary to clean a machine before changing from, for example, steel to brass. Then the ferrous and non-ferrous scrap will not contaminate each other and so detract from the value of both. The general rule is that an admixture of metals usually brings less than the going price for the least valuable constituent.

Once the segregation system is in operation, the big problem has been

solved, but care in subsequent operations must be maintained. Some scrap must be further prepared to meet the requirements of the consumer. On presses, for example, not only must scrap be kept separate, but cut-offs can be used in many instances to make scrap properly classified, say, as No. 1 factory busheling, ready for use by the steel mills. Scrap resulting from the same steel and the same presses not equipped with cut-offs has to be either sheared or hydraulically compressed prior to shipment. Such preparation, however, is generally not for the small plant; even in large ones it is sometimes a close decision whether the company can afford to equip itself with cut-offs, shears, and baling presses or whether it is better to let the dealer perform these jobs.

Proper handling of scrap on its trip from the machines to the storage area is just as important as segregation. In plant after plant, materials originally segregated and prepared have been thrown together, resulting in unprepared grades. In such cases, the company actually paid men to destroy the value of its property.

In the marketing of scrap, many companies pile the complicated task of scrap sales on an already over-burdened purchasing agent whose principal responsibility is buying supplies. He is expected to perform the added task with his left hand sometime during the day when important business lets up. Even granting that he may be the unusual employee who, under these handicaps, will really make a study of the certain kinds of scrap the company produces, it is impossible for him to be expert in all kinds at any given time. He can't be familiar with the internal production of scrap, but has to dispose of what arrives at the shipping dock as best he can.

The establishment of an efficient system for the marketing of scrap is of extreme importance. The following case story indicates to some extent the savings that can be realized through the inauguration of such a system: One concern customarily disposed of 12 grades of scrap monthly. By instituting additional segregation, 16 grades were sold the first month the change was made. In the second month of operation, 21 grades were sold. The concern is a sizable one, and the work of setting up a truly efficient segregation and marketing system is not yet completed. Originally, however, the company was realizing an average revenue from all its scrap of just over $1,100 a month. During the first month under the new system, the revenue jumped to just over $1,700, with no production increase, and in the second month it reached more than $3,300, still with no production increase.

The intelligent marketing of scrap is a complicated operation requiring knowledge which is wide, detailed, and up-to-date. More mistakes—and more costly mistakes—are made in the sale of scrap than in the handling of it. It is obvious that important decisions on segregation cannot properly be made unless they are based on a knowledge of markets. Only by producing scrap of recognized classifications can a manufacturer obtain a price in line with accepted markets.

BY JAMES FLETT. *The Iron Age,* March 17, 1949, p. 86:5.

• HOW MANY MILES DOES A FOREMAN WALK A DAY? Alexander Smith Carpet Co. (Yonkers, N. Y.) tied pedometers to its supervisors' feet and found out that the average overseer paces his department the distance of 12 miles a day.

—***Employee Relations Bulletin*** **(National Foremen's Institute, Inc.) 2/28/49**

Marketing Management

Do Special Customers Need Special Salesmen?

MARKETING managers today are keeping a close lookout for better ways to do their merchandising jobs. One method that is being utilized extensively is that of sales specialization. To determine just how common is this type of answer to the current demand for stepping up sales activity, and to find out some of the main problems involved in reorganizing a sales force along specialized lines, Dartnell recently surveyed 54 firms, came up with some interesting findings, highlights of which are presented below.

Of the 54 firms contacted, only 18 were not engaging in some sort of sales specialization. Several of the company respondents have undergone major sales reorganizations since the war. Some are planning extensive changes at the moment. And almost all are seeking better merchandising methods.

For companies interested in breaking up their sales organizations into specialized groups, the main problems are these: How shall the split-up be drawn? And how can compensation be handled?

Whereas a division of the sales force into separate units may follow product lines, executives planning such split-ups more commonly think in terms of the problems and demands of the customers with whom their different types of salesmen will be dealing.

The layout of the Amity Leather Products Company's sales force is an example of one which makes special provision for several types of accounts, ensuring a specialist salesman for almost any type of customer. Amity's sales force has these subdivisions: (1) A separate selling organization for wholesalers. (2) A separate selling organization for department and specialty stores—direct selling. (3) Specialists for army, navy, and government business. (4) Specialists for the chain drug field. (5) A separate selling organization for handbags. (6) Specialists for contract business. The firm's recruitment and compensation policies are outlined as follows by a company official:

> We recruit these men separately, as a general rule, trying to get men from the field in which we are going to use them. There are times, however, when it is advantageous for us to "graduate" a man to a higher-paying division. In regard to the inner selling organization politics, because of larger and smaller accounts, we compensate that factor by varying rates of commissions depending on the fields that the men are selling in.

The reorganization of a sales force is a major company operation, as in the case of the Carboloy Company, which decided to realign its selling activities on a careful job analysis plan. Carboloy's program was outlined as follows:

> Our program was put under way by arbitrarily dividing our sales work into four categories: (1) distributor contact sales; (2) direct sales to tool manufacturing agents and national accounts; (3) die sales; (4) service engineers.
>
> Job analyses were prepared for each type of work, and the entire sales force was realigned on the basis of new assignments. As far as possible, each man now specializes in but one type of sales work, with necessary exceptions in the areas with low potentials where but one man still must be "all things to all people."
>
> In assigning men to new responsibilities, we tried to make the most effective use of each man's abilities. This required moving some men from one area to another to strive for some balance in our sales districts. We were not infallible; readjustments had to be made after a year or two in some areas. This was particularly true in the case of the work

of distributor contact sales, which is essentially a merchandising type of activity.

In almost any plan of specialization in the sales force, personnel problems falling under compensation, promotion, and territorial assignment in general become considerably more complex. The general methods for handling this problem are: The sales manager tries to keep territories so in balance that there is not a great amount of difference between the actual or potential earnings of the company's various salesmen. More lucrative territories, types of accounts, or classifications of sales jobs are held as rewards for seniority and a record of productiveness.

In its reorganization, previously mentioned, Carboloy Company has set up a new compensation system based on pooled efforts of sales representatives, which was designed to eliminate some of the difficulties of incentive plans that move men between territories or keep changing the boundaries of sales territories. A company representative sketched the plan as follows:

> All men in an area—direct salesmen, dies salesmen, distributor contact salesmen, service engineers, and the district manager—work as a team to help one another increase sales, since an individual's good fortune immediately becomes the entire group's gain. While this group budget plan is contrary to the usual individual incentive plan, we find it makes for economical coverage. Those men not carrying their weight are soon shown up. Group pressure is very strong to keep each man "hitting the ball."

Several contributors to this study control their compensation schedules under a plan somewhat similar to the one outlined by J. H. Hartley of the Braun Corporation:

> When a business grows at the rate ours has been growing during the last 10 years, it seems natural that the older and larger accounts gravitate to the older and more experienced salesmen. However, we are trying to keep as good a balance as we can in the assignment of accounts to salesmen we are now hiring. In other words, we are trying to equalize the possibilities with all of the men. There is less and less "gravy" these days, but if there are any accounts that could be considered in this class, we try to distribute them and try to not let them all be assigned to one man or a few men.

Harry J. Voelker, president of the W. H. Kranz Co., outlined a plan of varying commission margins which keep salesmen in the two separate groups from having cause to become disgruntled at unequal opportunity:

> We have no disgruntled men because of the fact that economic and competitive conditions cause small margins on large sales and permit longer margins on small sales. Our men work on a percentage of the gross margin which grows smaller as the margin is reduced. The salesman who sells an item which shows a 10 per cent gross gets a smaller percentage of the gross than a salesman who sells an item with a 25 per cent gross.

Almost any number of combinations can be worked out around this system, the worth of all of which would depend almost entirely upon whether they could be administered without too much trouble and expense, and whether they could be set up simply enough.

From *An Exchange of Management Experience,* The Dartnell Corporation, Chicago. 16 pages.

Cost Brakes for Auto-Using Salesmen

ONE of the most pressing problems confronting the sales manager today is the rising cost of operating salesmen's cars. In seeking his solution, he must first determine which is the most economical type of operation for his company's needs: Is it the company-owned fleet? The salesman-owned fleet? The leased fleet? One large firm that made an exhaustive study of the problem found that different forms of ownership proved more economical in different territories. Presented here is the story of the cost cuts this company achieved through careful analysis and action.

The firm in question has nearly 600 men on the road. During 1948, it

purchased for or from its salesmen some seven and one-half million miles of automobile travel at a cost of more than half a million dollars.

The company's initial study of the situation revealed that no one type of operation would serve all its needs, since it is engaged in diversified types of business. Thus it was decided that each division would adopt the plan which would serve it to best advantage and that further study would be given the possibilities of a company-owned fleet.

The people working on the problem were directed to give prime consideration to two factors: cost to the company, and the appearance of the cars being driven by the men.

Further study brought to light some interesting statistics:

It was found that in 1947 the company was operating 563 cars, of which 447 were salesmen-owned; 85 leased; 31 company-owned. That situation had changed by 1948. Company-owned cars had vanished from the picture. The number of leased cars, on the other hand, had increased to 160, while salesmen-owned cars had decreased to 376.

This change was explained as "the result of a concerted effort to confine each car to the spot where it will function to the greatest economic advantage, namely: leased cars to high-mileage operations and salesman-owned cars to those placed where annual mileages are basically low.

Leased cars were run a total of 3,558,175 miles a year, an average of 22,238 miles per car, at an average cost per mile of 6.36 cents. Salesmen-owned cars ran 3,766,030 miles the same year, an average of 10,016 miles a year per car, at a cost of 7.66 cents. The over-all average was 7.08 cents a mile.

The company found the following "important intangible advantages" to leased-car operations: Salesmen were relieved of the heavy investment entailed in the purchase of an automobile in today's chaotic market. They were given cars they could use for personal purposes, provided they pay the expense entailed in such use. They were given vehicles that were new and would make the desired impression on customers. These advantages, the company found, increased both the morale and efficiency of its salesmen. Moreover, loss of time from selling because of equipment failure was reduced to a minimum.

Drawbacks to operation of a company-owned fleet were found to be:

1. Such an operation (company-owned cars) would be desirable only where salesmen cover high mileage for the same reasons that make the leased car acceptable.

2. To be of complete value, a fleet operation should be headed by a centralized motor vehicle department so that economies of quantity buying, quantity maintenance, etc., would be effected.

3. Capital investment would be high and it would be difficult to acquire a fleet in today's market.

—Philip N. Schuyler in *Advertising & Selling* 4/49

Public Opinion on Price Ceilings

FOR the third time since 1946, the American public has completely reversed itself on the desirability of the O.P.A. and price ceilings. In the spring of that year, three-quarters of the public favored O.P.A. and price ceilings; but by October, 65 per cent thought free competition by business was preferable. In August, 1948, when prices were at a high point, the percentage who thought free competition by business was preferable had dropped to 40. Now the per cent who favor free competition by business has risen again to 62, according to a recent nationwide survey conducted by The Psychological Corporation.

Opinions differed widely, of course, by socio-economic groups: Competition by business was favored by 82 per cent of owners and managers, O.P.A. by 12 per cent, 6 per cent were uncertain. Percentages for the same replies in the other groups questioned were: white collar—68, 24, 8; skilled workers—60, 28, 12; unskilled—46, 39, 15. Thus even in the lowest-income group more people favored competition by business than price ceilings.

How to Conduct an Industrial Sales Forecast

TODAY industry after industry is eating into the order backlogs which spell the difference between a sellers' market and a buyers' market. As company after company approaches this condition, the value of industrial sales forecasting as an important marketing tool becomes increasingly apparent.

Industrial sales forecasting utilizes three basic tools: (1) a business conditions forecast; (2) an individual customer purchase forecast; (3) an appraisal of the competitive situation.

The first of these tools, the business conditions forecast, like a monkey wrench, can be adjusted in breadth so that it takes in, or forecasts: (1) general business, (2) a segment of general business, (3) individual industry. Business conditions forecasts of any of these three types may be handled on a long-term or a short-term basis. The availability of new and better information and advances in techniques tends to promote the use of the segment of general business forecast or the individual industry condition forecast in many situations where general business conditions forecasts were formerly used. This has been particularly the case since the war, because our economy has been characterized by the condition in which certain industries are very long on orders and very prosperous, while others are having a difficult time.

The following elements are among those often included in a business conditions forecast:

> Bank debts, index of electric power production, index of industrial production, employment data, indices of activity in the construction industries, motor car production, car loadings, wholesale trade indices, export and import balances, department store sales, chain store sales, mail order house sales, new security issues, stock market level, earnings of corporations, changes in orders, postal receipts, real estate transfers, bank debits.

The second tool—the individual customer purchase forecast—amounts to compiling from trade directories, the Thomas directory, and other sources, a list of individual customers or prospects and then becoming familiar enough with each to ascertain the nature and extent of his needs for the product in question. It is a detailed, down-to-earth, nose-counting job.

The third tool—appraisal of competitive situation—involves sizing up your competitors for two basic purposes: (1) to determine what total industry volume is and what part of it your sales represent; (2) to be aware of competition development which could change your relative position.

The decision of whether to apply each of these tools and the nature of the application varies with the nature of the market for the product. There are seven principal determinants of the question of which to apply and of the nature of the application. These are: (1) size of purchase (unit); (2) frequency of purchase; (3) deferability of purchase; (4) number of industries; (5) number of customers; (6) type of distribution; (7) existence of competition.

The intensity of the need of a business conditions forecast varies, for example, with the determinant "deferability of purchase." The greater the possibility of deferability of purchase, the greater the need to forecast the conditions which would discourage buying it now.

Similarly, the intensity of the need for a business conditions forecast var-

ies with the determinant "frequency of purchase." The more frequent the purchase, the greater the need for a business conditions forecast.

Once the decision to make a business conditions forecast has been reached, the question arises of whether your business conditions forecast should cover general business, a segment of general business, or an individual industry. The question becomes: How broad shall you make it? Here the determinant "number of industries comprising your market" is spread over a few industries; the forecasting of the business conditions in each is the most suitable procedure. On the other hand, if those few industries comprise a homogeneous segment of general business, or if there is some business index or a group of business indices which foretell the health and level of activity of all of them, forecasting business conditions in that segment is the most suitable procedure. In tying your industrial sales forecast to some business index or group of indices, however, be sure there is good reason for your sales to vary with this guide.

Next there is the question of whether the business conditions forecast should be conducted on a short term, i.e., a one- or two-year basis, or a long-term basis. When the size of purchase is very large, the frequency of purchase low, and the deferability of purchase great, you are most likely to need a long-term forecast. Long-term forecasts are important, for example, in the sale of large dynamos to public utilities.

The most powerful determinant in connection with the second tool—the individual customer purchase forecast —is the number of customers. The smaller the number of customers, the more practical it is actually to size up your market on a customer-by-customer basis. This is a desirable tool to use, when practical, in that it gives a down-to-earthness to your forecast, not possible to achieve on a purely business-conditions basis.

Other determinants influencing the use of this tool are: size of purchase, frequency of purchase, and type of distribution. The greater the size or unit of purchase, the more practical it is to study the market on a customer-by-customer basis. The less frequent the purchase, the more practical is the individual customer purchase forecast. The more direct or the shorter the channel of distribution, the more practical individual customer purchase forecasting is.

In considering the use or non-use of this tool, be careful that you don't discard it too quickly. It is more practical in instances of: (1) greater number of customers, (2) smaller unit of purchase, (3) greater frequency of purchase, and (4) longer distribution chains than at first appraisal you would think. It is well to note that you seldom use this tool without using with it some one of the three business conditions forecasting tools covered earlier.

The third basic tool—appraisal of the competitive situation—is used whenever competition exists. Only under circumstances of monopoly would this tool be unused.

The first two tools are measures of the total market for industrial goods of the type you sell. You need this tool to aid you in determining what part of that total you can expect to get. This tool is never depended upon alone. It is used in conjunction with one, or both, of the other two basic tools as follows: (1) If you are using a business conditions forecast only, you need, in addition, knowledge of industry volume so that you will know what an indicated increase or decrease

of 10 per cent means in dollars. To get this you must have your competitors' volumes, or the total thereof. (2) If you are making an individual customer purchase forecast, you need to know something of your competitors' plans and tactics.

Here, then, are the steps you would take to make an industrial sales forecast for your company:

1. List each product or homogeneous class of products.

2. Characterize it on each of the 7 determinants as follows:

(1) Size of purchase—large, medium, or small
(2) Frequency of purchase—often, seldom, very seldom
(3) Deferability of purchase—great, moderate, slight
(4) Number of industries—many, few, one
(5) Number of customers—great, moderate, small, very small
(6) Links in distribution chain—many, few, direct
(7) Existence of competition—yes, no

3. Upon the basis of these determinants, select the tools to be used as follows: (1) If the word to the right of Determinant No. 7 is "yes," Tool No. 3, appraisal of competitive situation, is to be used. (2) If the word to the right of Determinant No. 5 is "moderate" or "small," nine chances out of ten you use the individual customer purchase forecast. If size of purchase is "small"; frequency, "great"; and links in distribution chain, "many," appraise the practicality of its use carefully. (3) If the indication to the right of Determinant No. 5 is "very small" and you trust your customers' size-up of business conditions, you can omit "business conditions forecast"; otherwise, the word following Determinant No. 4 pretty well determines the breadth of the business conditions forecast required. You wish to keep it as narrow as possible. At this point three other determinants should be considered: Great deferability of purchase, small size of purchase, and great frequency of purchase motivate toward broadening this tool. (4) Put the selected tools to work.

From an address by James C. Olson before the Fifth Annual Conference of Sales Managers of Ohio Industries.

Today's Biggest Market

WAGE earner families plan to buy two and a half million mechanical refrigerators this year, nearly two million automobiles, eight hundred thousand television sets. That is the wage earner market as of Spring, 1949, and is a report of the intentions of wage earner families as revealed in a recent survey of the Wage Earner Forum, sponsored by Macfadden Publications, Inc.

In the first months of 1949, this buying did not move rapidly because a large proportion of wage earner families, 60 per cent in fact, held off buying some major item, believing that prices are too high and will come down. But they have the money and reserves with which to make these purchases.

Their intent to buy refrigerators, for example, is despite the fact that more than 88 per cent already own a mechanical refrigerator. Of those, 36.5 per cent were purchased prewar. During the postwar years, 35.9 per cent of all wage earner families have purchased a mechanical refrigerator. This last figure contrasts with a figure of 18 per cent reported in a recently published survey of white-collar families.

Of the 20 million families who are planning to buy this year, 12.4 per cent plan to buy a mechanical refrigerator, 8.6 per cent an electric clothes washer, 5.9 per cent an electric toaster, 5.2 a radio, 4.1 a television set, 3.1 an electric iron, 1.0 a deep freeze, .3 a dishwasher, 9.4 an automobile, 4.2 a house.

Packaging

The Impact of Self-Service on Package Design

BEFORE the advent of the supermarket, American packaging ideas and methods were far in advance of the techniques employed to sell the packages. The package was still considered simply as a container that would enable the product to be more conveniently handed over the counter by the clerk; and it was not entirely up to the customer to decide what packages she wanted. But the supermarket and self-service have changed all that. The teamwork of a growing supermarket industry and an alert packaging industry has brought about a general self-service revolution.

And this revolution gave the consumer the liberty of choosing the products she wanted for quality, brand, economy, taste, or other personal preference. The whole responsibility of selling the product was put on the product itself, the package it wore and the name it carried.

Consumers accepted this new freedom eagerly. There were some 1,200 supermarket operations, doing roughly a half billion dollars in 1936; and by the end of 1948 about 12,000 supermarkets were doing almost 8½ billion dollars. In 1939 the supermarket accounted for 19.4 per cent of the grocery and combination store volume; in 1947 the percentage was nearly 30.

Scientific packaging can point to real accomplishment. Supermarket shelves and gondolas feature anywhere from 1,800 to 3,000 or more grocery items, each one in a package of its own; thus for all practical purposes the grocery department of the average supermarket is already 100 per cent self-service.

And this trend is spreading to other departments. In a recent survey, a number of leading supermarket chain operators were asked which departments will become self-service in the coming year. The replies showed the following percentages: dairy, 85 per cent; poultry, 80; fruit and vegetables, 80; meats, 70; seafood, 70; delicatessen, 60; drugs, 50; bakery, 40—indicative of a great change.

These figures define the immediate future of packaging and self-service: to give the consumer perishable foods and so forth, packaged with a maximum appeal, convenience and protection so that they are sure to be fresh, clean, and of high quality.

Many manufacturers in the packaging industries have been working closely with the supermarkets to develop packages for self-service meats, dairy and produce. This kind of teamwork must be maintained and increased. The serious problems in merchandising certain packages can be solved only if the package manufacturer and the supermarket operator work together.

The company with which I am associated, Super Market Merchandising, has a supermarket research panel consisting of key operators controlling some 2,500 units throughout the country. Presented below are some of the findings of a survey we recently completed on the simplification of container sizes.

Of our operators, 87 per cent said that their business suffered from a

multiplicity of container sizes and shapes, which only serve to hamper inventory control, increase handling costs, complicate the merchandising program, and confuse the consumer. This factor also overloads selling space, confuses pricing, increases inventory investment, creates advertising mix-ups, and complicates display.

The operators called for pruning of sizes to no more than five and as low as two separate sizes for each category of canned food.

Many operators use can sizes in deciding their purchasing policies, and as far as possible limit their purchases to certain sizes for the sake of efficiency.

In a less formal survey, a number of leading supermarket operators made certain recommendations on packaging in cartons. Here are some of them:

(1) A *white space* on the package for price marking is of tremendous importance to all supermarkets. This space should be so located that the price can be stamped on the package when the case top is removed. Some items now have such a space but in a location that makes it necessary for each package to be handled individually, entailing additional labor.

(2) If the carton industry could *standardize sizes and styles of packages* for specific commodities, it would help the retailer. For instance, in butter and lard cartons there are some long, flat oblong packages of varying sizes and some that are square. If the butter and lard producers could get together with the supermarket operators to develop standard packages, it would make for better and more uniform store display.

(3) Although great improvements have been made on the *self-locking* features at the ends of cartons, some cartons still come apart quite easily at the ends. Further development or improvement here would be appreciated by retailers.

(4) Labels should *explain* clearly various methods of preparing the product. This would stimulate greater sales.

(5) *Code dating* of the product so the retailer can check its freshness would help materially in getting fresh merchandise to the customer.

These are only a few suggestions. But they point up some of the effects of supermarket merchandising on package design. The supermarkets in their packaging practices are not merely developing progressive merchandising ideas for themselves but are actually putting them up in lights for every other industry to see, to adapt, and to use. In other branches of food retailing, self-service is becoming more and more common. The supermarket is the research laboratory for the development of self-service packages, and the methods developed there are percolating into every other sector of food distribution.

BY M. M. ZIMMERMAN. *Printers' Ink,* April 8, 1949, p. 27:3.

● THE IMPORTANCE OF EMPLOYEES as word-of-mouth salesmen for the company is being regularly recognized by Lever Brothers Company of Cambridge, Mass. Each month an employee's pack, containing a cross-section of the company's products, is sold to employees at the cost of manufacture. Whenever a new product is introduced, samples are sent to employees before it goes on the market. All newly hired employees receive the company's complete line of soap, shortening, dentifrice, and cosmetic products. The same distribution is made to employees upon their marriage.

A Check List for Package Design

The Package in the Home

Is package immediately destroyed?
Is package used to store contents until used up?
Should package have a dispensing device?
What is the average amount of contents used each time?
Is package returnable?
Where in the home is package stored? Before use? During use?
Where is the package used?
Is package used later to store other material?
What effect do the foregoing have on size, color, material?
Is package for a new product?
Have any surveys been made of consumers?

The Package in the Store

What types of stores will sell the package?
What class of customers do they serve?
Must the package do most of the selling?
Does the package form part of display?
At what distance must package be identified?
How is identification of contents achieved?
What is rate of turnover?
Where is package kept in selling space?
How is package handled in the stock room?
What can be done to simplify handling of package?
Have the opinions of distributors and dealers been canvassed?

The Package in Transit

How is package shipped? What type of carriers?
Are standard cartons or cases or crates used?
How do these factors affect dimensions?
What protective measures are required against temperature? moisture? shock? pilferage? vermin?
Have the carriers any recommendations or standards to be considered?

The Package in the Warehouse

How is package stored?
How is it handled?
What are usual units of shipment?
How are inventories taken?
How long is package in warehouse?
What protective measures are required?

The Package at the Plant

In what form is packaging material received? quantities? who from? where?
What are filling, wrapping and labeling methods?
What grades of employees are involved?

Package Design and Promotion

Is there a trade mark or brand identification?
Is there a long-established type face?
Is there a standard color scheme?
What type of art work is used in advertising and display?
Are there radio programs?
Are there established customs in the industry that affect packages?
What other products are made?
What are competitors' packages?
What packages by others present similar problems?
What are opinions of various departments?

The Package and the Law

What government requirements exist regarding: size? ingredients? grades? weight?
What trade customs exist within the industry?
What patent or copyright information is required?

—International Confectioner 5/49

Financial Management

The Three C's and Human Relations

By **ROBERT D. BRETH***

THE benefits of good human relations as a general business principle are becoming increasingly apparent to progressive top managements. Good human relations have helped to expand production, reduce labor turnover, decrease accident hazards, and otherwise make or save money for the company. But there is another beneficial aspect of *good* relations, and conversely, a detrimental angle to *poor* relations, which business men and their bankers may sometimes overlook.

This is the effect that human relations, good or bad, have on the company's standing as a credit risk. Traditionally, a company with adequate *capital* and managed by men of known *character* and proved *capacity* was considered a sound *credit risk*. To wax mathematical, this concept might be expressed in an equation as follows: $C + C + C = CR$. But granting that the three C's are up to par, it is still possible for the CR to be doubtful, when the new element of HR, or *human relations,* is considered. In other words, the equation should be modified to read:

$$\frac{C + C + C}{HR} = CR.$$

It is possible for a company to possess adequate capital, but to have this "C" dissipated by a long and disastrous strike, slowdown, or progressive inefficiency in workmanship—as a result of poor human relations. It is possible for a company to be managed by men of proved capacity to increase sales and production, but not to maintain good human relations while doing so—thus paving the way for disastrous strikes or other profit-disturbing factors. It is possible for these same men to have characters which make their word their bond in business and financial transactions, but who fail to maintain this same integrity in dealing with human relations problems—another source of trouble.

When these possibilities exist, they are a potential threat to the credit standing of any company. Thus it would behoove bankers and business men alike to take more heed to human relations from the credit viewpoint. The future repayment of a long-term commitment or equity loan might well be affected by events that are in the making now.

One banker informs me that his institution advises against client investment in certain equity obligations because of the uncertainty of the labor relations picture. For example, take the case of a publicly owned transit company in a large eastern city. The company negotiates with the collective bargaining agent over an increase in wages. The negotiations drag on for two months, finally resulting in a short but costly strike. When the dust settles, the company has agreed to an increase, retroactive to the date of original negotiations, thus sharply increasing operating expense. In addition, certain segments of the public, irritated by the inconvenience, switch to other forms of transportation, thus lowering operating income.

But this is not all. The company,

* Management Consultant.

now squeezed between higher costs and lower income, seeks relief by appealing to the Public Utilities Commission for an increase in rates. By the time the relief is secured, many more months have slipped by. But the rates *are not* retroactive. Thus while the increase may adjust the current squeeze between operating expense and income—net working capital has been reduced, irretrievably, by the long gap between the effective date of the pay increase and the rate increase. Repeat this performance for two or three years and the net worth of the company is adversely affected. Result—poor risk for long-term investment.

While this type of situation will not confront the majority of companies, the principle remains the same. The ability of a company to repay loans can be affected by human relations, which is really composed of labor and/or employee relations.

That "and/or" is used for a definite reason. There is a distinction to be drawn between employee relations and labor relations. The former exists with every company but the latter does not. It is possible for employee relations to be good, but labor relations to be poor. In effect, employee relations are always controllable, but labor relations may not be.

Employee relations may be expressed as the feeling which exists between employer and employee as a result of past experience in arriving at satisfactory wages, hours, and working conditions. Specifically, it is based on such factors as management's understanding of employee problems, recognition of individual and group accomplishment, voluntary employee benefits, a well-developed line of communication, the free interchange of information and ideas, job security, and opportunities for advancement.

Labor relations may be expressed as the feeling that exists between the *collective bargaining agent* of the employees and the company management. This feeling is based on the success or failure in arriving at past bargaining agreements and the possibilities that may influence future bargaining. Labor relations may be localized or they may be part of an industry-wide situation.

From this interlocking of employee and labor relations, one hard fact can be drawn. The surest way to create good labor relations, if collective bargaining exists, is to improve employee relations first. If collective bargaining does not exist, good employee relations help to maintain the status quo.

What signs point to good or poor labor or employee relations? Here are a few questions which should be freely discussed by the banker and his prospective loan-client in order to bring the human relations picture into focus.

1. The first point to examine is the actual strike record of the company since the bargaining agreement went into effect. In this respect, "No news is good news." But if the company has had a series of strikes—well, draw your own conclusions.

2. The second point to be examined is the actual contract between the company and the bargaining agents. How does it compare with competitors' contracts? When does it expire? For what reason or reasons can it be reopened before the expiration date? An analysis of these and other questions will reveal facts that can affect both short- and long-term loans adversely.

3. The third point to examine is the status of the bargaining agent or agents. Is it (singular is used for simplicity) an independent or an affiliated union? Is it conservative, liberal, radical or Red-dominated? Are the union heads new or seasoned, young or mature? Again,

such an analysis will pay off in facts that can affect future loan-paying possibilities.

This analysis of the human relations factor from the labor relations viewpoint would serve to strengthen the credit foundation of a company when its employees are represented by a bargaining agent. But what about the even more basic factor of employee relations?

What are some of the signs which indicate good employee relations? A few more questions, discussed freely between banker and loan-client, will enable an analysis to be made:

1. What is the line of communication between the management of the company and the employee? An adequate two-way communication system indicates a progressive management. To be specific, this "line" should include the intelligent use of certain communication media. One, or all, should be employed, depending on the size of the company, its geographical distribution and the number of employees: personal contact (direct or through supervisory ranks), group meetings, employee publications (including newspapers or magazines, handbooks and manuals), bulletin boards, letters, speaker systems, motion or slide films, annual reports, and open house programs.

2. What employee benefits are in use? Progressive companies supply many other incentives to secure and retain the services of high-caliber employees in addition to good pay and working conditions. Specifically, every company should provide one or more of these benefits: retirement or profit-sharing plan; life, health and accident group insurance; modern vacation schedules; hospitalization and surgical benefits; suggestion systems; cafeteria; military reserve and jury duty remuneration; recreational programs and facilities; and various other services.

3. What are the attitudes of the employees toward the company? The sum and substance of any good employee relations program will be found in the opinions of the employees themselves, individually and collectively. The most authoritative answer to this question will be found in an opinion and attitude survey, preferably conducted by an independent research agency. Progressive employers are turning to such surveys more and more, in order to evaluate their employee relations program. If such a survey has not been made, however, other signs will help gauge the average employee attitude. What is the labor turnover? Absentee rate? Average service record? These and similar questions will help determine employee attitudes.

Such an inquiry into a company's labor and employee relations can be revealing to bankers and loan-clients alike. It will show the importance of that HR or human relations element in the equation

$$\frac{C + C + C}{HR} = \text{Credit Risk.}$$

● CORPORATION INCOME FIGURES should be given in round numbers to avoid an appearance of accuracy they do not actually have, according to Professor R. N. Anthony of the Harvard Business School (in *The Journal of Accountancy*, April, 1949). Pointing out that the final net income figure cannot be more precise than any estimate contained in it, and that such items as depreciation and value of inventories cannot be exact, the author recommends, as one method of treatment, that the income figure be accompanied by a "measure of estimate" showing how much larger or smaller it might be on the basis of possible errors in the estimated components.

The Annual Report: Portrait of a Business

COMPANY annual reports have been the subject of a great deal of thought, even of soul-searching, on the part of business men. What should be their objective? Should there be several kinds of reports or one all-purpose report? In what form should they be cast? These are some of the questions to which the author sought answers in a recent survey of practice and opinion. Some of the findings are presented below.

In the past 10 or 15 years, more and more companies have sought in their annual reports to produce on the minds of their readers the effects of a good portrait—a living, animated personality of character and spirit, with a history of accomplishment behind it, and a long vista of further achievement ahead.

The terse, formal, and forbidding reports of a generation ago, saying in effect to security holders, "This tells you what we have done with your business, if you can dig it out from these condensed, technical, financial documents," no longer satisfy the spirit of the times. It is becoming more and more imperative for business to woo and win the public's understanding and favor; and today's annual reports show an increasing consciousness of this need.

The question arises whether all the objectives which might fall within such an extended concept of the annual report can be effectively dealt with in a single document like the annual report. The general answer is in the negative. A company management does well to recognize—most of them do recognize—that its total message to all the segments of the public which it wishes to reach cannot be conveyed between the covers of the annual report.

In reply to a survey of 111 companies chosen at random, 83 indicated that among them they send as many as 37 different varieties of printed communication to stockholders in addition to the annual report. Replies to another letter, from 56 other companies, show that taken together they send some 25 different types of communication to employees, as well as a considerable number of the same items that are sent to stockholders.

But the general conclusion that the annual report cannot convey everything that the company wants to say to stockholders, let alone to others, does not at present justify a return to the old formal, technical style of report. What is needed at present, and what in fact is going on, is experimentation with different forms and practices in respect to the annual report, fitting it into a larger pattern of other communications.

It has been suggested by some that the annual report be stripped of all popular and decorative features and limited to the serious business of the financial statements and the president's report. One group which urges this consists of stockholders who complain of the expense; they say they would rather have the same money in extra dividends, probably without any clear idea of how minute an addition to their dividends would result from condensing the annual report. The other principal group making this suggestion comprises those who take their reports seriously and, as investors on their own account or as trustees, guardians, or consultants to others, gather a considerable number of reports which they wish to file; some of these complain of the bulk of the materials they must handle and object to filling up their

files with pictures and popular literature.

This is the kind of argument which leads many company officials to question the advisability of the popular report. In a few cases, companies have given up the ornamental report and returned to the brief, formal style. For the most part, however, the companies which have been putting out more attractively written and illustrated reports plan to continue doing so.

Should the same report be addressed to stockholders and to employees? One finds examples of this being done and also examples of a separate and different report to employees, with changes of practice in both directions and no very marked predominance of pattern yet emerging. The latter course encounters certain difficulties. Employees have shown symptoms of suspicion toward the separate report. They have a disposition to complain that they are "not getting the same figures as the stockholders got." Moreover, they object to being "talked down to" in any way by simplified reports.

Whatever course is followed, the annual report cannot be looked upon as a thing apart from other company contacts, communications, and activities. This is particularly the case in relations with employees, whose attitudes will be determined by the sum total of all their associations with their employers.

This total problem forms the natural setting for organizing a department of stockholder relations, preferably as part of a department of public relations, in close touch with a department of labor relations. By the creation of such departments, many companies have indicated their realization that the entire problem is serious business, that the annual report as such does not stand alone, and that there is need for considered coordination of all the company's communications to stockholders, employees, customers, and the general public.

The financial statements are still the hard core of the annual report. The expert analysts and the popular questionnaire responses agree on this. The modernist movement is trying to do two slightly different though not incompatible things with them: (1) to rearrange them into more readable and more significant form for the layman, and (2) to make them more authentic for the expert analyst. Inquiries among the analysts seem to indicate that the former purpose is being achieved in considerable measure without any sacrifice of the latter.

Therefore, instead of the somewhat misleading and certainly unhelpful total separation between assets and liabilities into two apparently unrelated lists, the newer form of balance sheet emphasizes the intimate relationship between current assets and current liabilities by subtracting the latter from the former to show a net working capital figure. To this the amounts of the fixed assets are added, to form a total which might be regarded—somewhat elastically—as the permanent capital of the enterprise. By subtracting from this the long-term indebtedness, a balance is arrived at which shows the stockholders' equity in the company. This of course is spelled out into the several classes of capital stock and into what used to be, and still is in many cases, called "surplus," but for which the modern term "earnings reinvested in the business" is much more appropriate.

There are practices which could be improved with respect to the showing of income, and companies should make

these improvements. In particular, they should make clear beyond question which figure they regard as "income of the year," even though they feel some doubts and qualifications about it, and even though these doubts are given expression elsewhere in appropriations out of income. Furthermore the item which is so designated in the income statement is the one which should be used also in the president's report, in his discussion of income, and in all company publicity on the subject. But company officers and their accounting advisors should continue to press for reasonable freedom of choice in difficult cases, provided they take all steps to make their treatment clear.

A number of reports today contain a section of the president's report, headed "The Future" or "The Outlook," which tells of plans adopted and actions taken looking to the future. Frequently there is something in the form of predictions of the course of business for the future, with an indication of the degree of assurance with which the company officers think these estimates may be regarded.

Of great moment to the future of the company is its research and development program. All the questionnaire results bear witness to stockholder awareness of its importance and their keen interest in it.

A related subject is the place which the company occupies within the industry in which it operates. The trend chart which shows how the company stands in the total industry, and the direction in which it is headed, is a helpful feature welcomed by the stockholder.

Many presidents have succeeded in putting into their reports an expression of that character and spirit which were urged at the outset as perhaps the essential attributes of a good portrait of the company. If it sounds also like an authentic portrait of the man, that is still more to the good. The human touch, the feel of one man speaking to another, is often achieved without loss to the business character of the report and with great gain to its appeal. All the other features of the company report should support this note and be consistent with it.

By Thomas H. Sanders. *Harvard Business Review,* January, 1949, p. 1:12.

Profits Pattern

FOR business generally, 1948 was the most profitable year ever. A *Wall Street Journal* study of the annual reports of 376 important companies in two dozen industries shows these firms had profits of over five and a quarter billion dollars last year—more than 23 per cent above 1947.

But behind this glittering average rise is enormous diversity. The 18 oil companies analyzed crashed through with better than a 66 per cent gain, while five big motion picture firms took worse than a 64 per cent decline in earnings. The food processing and meat packing industry, the rubber makers, the sugar companies, and the pulp and paper concerns all profited less than in 1947. Each had felt the return of bitter competition. The public utilities, their rates retarded by government regulatory bodies, as well as the retail stores and liquor distillers, achieved the mildest sort of increase in earnings.

Though the profits parade was still moving forward in 1948, the increase was the smallest for any postwar year. Similar studies showed that 1947 earnings were 47.8 per cent greater than those of 1946 and that '46 profits topped 1945's by about 34 per cent.

The big question now, of course, is whether the forward movement will be halted or reversed in '49. Peering ahead, most corporate officials expect a good year, but you have to search long to find one who thinks '49 profits will measure up to 1948 reports.

Many firms are taking pains to say profits aren't as big as they look. General Electric's president, Charles E. Wilson, tempered his announcement of peak profits with the comment that earnings in relation to sales were below prewar.

General Foods argued that "though the original cost of equipment is recovered through depreciation allowances, this amount usually is inadequate today to buy a new piece of comparable equipment." In other words, the record harvest of dollars is worth so little that a good slice of "profits" often has to be laid aside just to keep physical facilities of a business in proper trim.

This inadequacy of depreciation reserves, plus preparations for a return of old fashioned, dog-eat-dog competition, is causing many firms to husband their cash resources. So stockholders, in many instances, are not getting quite as liberal dividend treatment as might be expected from high profits.

A *Wall Street Journal* check shows that last year some 600 companies were paying larger dividends than in 1947, while more than a hundred reduced or eliminated payments. So far this year the policy has been much more cautious; 124 firms have hiked payments and exactly half that number have cut them.

—*The Wall Street Journal* 3/17/49

Stockholders on the Production Line

STOCKHOLDER relations, one-time corporate stepchild, is now being trotted out of industry's back room and ushered into a front-row seat in many company public relations programs. Instead of merely mailing shareholders a copy of the annual report and their quarterly dividend check (if any), wide-awake firms are now going out of their way to curry favor with those who put up the money to spin industry's wheels.

Simplified year-end statements, annual meetings in easily accessible places—with soft drinks and sandwiches thrown in, coast-to-coast showings of movies depicting company operations, even televised annual reports (Union Oil Co. of California)—these and other techniques are being dusted off and polished up by today's stockholder-conscious corporations.

Latest sample in the growing trend to cater to corporate owners was Westinghouse Electric Corporation's recent annual stockholder meeting. For the first time in the company's history, this annual get-together was held right on the factory floor (while nearby workers went ahead with the job of building electric power-generating equipment), giving shareholders a chance to look over operations and ask questions of both employees and executives.

In addition to the regular business meeting and an outlook report by President Gwilym Price ("1949 orders may approach our 1948 total"), shareholders were shown a movie of the company's manufacturing, research, and quality control activities. The meeting wound up with a guided tour through the plant and lunch in the employees' cafeteria.

—*Forbes* 5/15/49

Insurance

Effect of Eligibility Provisions on Pension Costs

CERTAIN limitations have been imposed by law and official rulings in the matter of granting pension benefits, with the aim of preventing discrimination in favor of supervisory or highly-paid employees. Despite this, an employer enjoys considerable freedom in deciding which employees are to be included in his pension plan.

Eligibility for pension benefits may be based on (1) age, (2) length of service, (3) job classification, (4) earnings, or (5) any combination of these. For instance, participation in some plans is limited to all employees who have completed three years of service and have reached the age of 25. Other plans cover only salaried employees over 30 who have at least five years of service and annual earnings in excess of $3,000.

Very often the exclusion of a given group or groups of employees is not a matter of principle or policy but a question of cost. The employer would prefer to cover everybody but feels that he cannot afford it. Therefore, he must limit participation in his plan.

Just how much can the employer save by excluding certain groups from his plan? The answer depends largely on the kind of exclusion. If a group is to be permanently excluded, the possible savings may be substantial. For instance, if pension benefits under a plan are limited to salaried employees and are figured on earnings over $3,000 a year, the employer will save the cost of providing benefits: (1) for wage earners, (2) for salaried employees who earn less than $3,000 annually, and (3) as to earnings of salaried employees up to $3,000 annually.

If, however, employees are to be excluded only until they have reached a stated age, or have completed a stated period of service, the employer may save little or nothing. For instance, if a plan covers all employees who have completed five years of service and who have reached the age of 30, the waiting period does not reduce the number who will reach retirement age in the employer's service and become entitled to pensions. On the other hand, if the amount of a participant's pension is determined in part by his years of membership in the plan, a waiting period will reduce his retirement income and consequently the ultimate cost to the employer. The actual saving attributable to the waiting period will vary according to the compensation base on which the pension is figured. If the participant's pension is a percentage of final earnings multiplied by his years of membership, the amount so saved will be in direct proportion to the waiting period. If, however, average earnings during membership are used, as in most such plans, the saving is much smaller due to the lower rate of earnings in the early years of employment.

What these variations in eligibility may mean in dollars and cents depends entirely on the composition of the personnel in a company. For purposes of illustration, the employee group of an actual company—a medium-sized manufacturer in the metropolitan district—has been selected for analysis. The reader may determine for himself how this group compares with his own employee group, and may thus judge what factors are of greater or lesser importance in his case. The table below

shows the number of employees and the payroll within the four main groups; also the employee classifications by age and length of service.

A breakdown of the type indicated in the table (usually prepared in much greater detail) should be one of the first steps in the formulation of a pension plan. It helps management to visualize many of the cost factors and other problems which a company must consider before determining its program.

Now let us assume that the pension plan is non-contributory, that the retirement benefit is 1% of each year's covered earnings during membership, and that each year only the 1% earned for that year's service is funded by a single premium corresponding to each participant's attained age. The approximate first-year cost of maintaining the plan would be as follows:*

(1) If all employees are covered....	$ 66,500	100%
(2) If all employees over 30 with five years of service are covered	53,000	79.7%
(3) If all employees are covered on earnings over $3,000 a year..	11,000	16.5%
(4) If only salaried employees are covered	29,000	43.6%
(5) If only salaried employees over 30 with five years of service are covered	25,000	37.6%
(6) If only salaried employees are covered on earnings over $3,000 a year..	9,500	14.3%

It is interesting to note that the cost of providing benefits for all employees over 30 with five years of service (Group 2) is *79.7%* of the cost of providing benefits for all employees regardless of age and length of service (Group 1), although the smaller group represents only *61.7%* of the total number under 65. The reason is that the employees who do not satisfy the minimum age and service requirements are young and earn less, on the average, than the older group. Consequently, it costs less to provide a benefit for

* These figures do not take into account the cost of past service benefits.

Number of Employees			Present Compensation		
Group	*Male*	*Female*	*Under* $3,000	*Over* $3,000	*Total*
Executives	7	0	$ 21,000	$ 79,000	$ 100,000
Office	105	34	314,362	32,764	347,126
Salesmen	27	0	79,800	66,144	145,944
Wage-Earners ..	250	116	788,871	27,463	816,334
Total	389	150	$1,204,033	$205,371	$1,409,404

		Years of Service				
No.	*Age Group*	*Under* 5	5 *to* 14	15 *to* 24	25 *to* 34	35 *and over*
72	Under 25	72				
48	25 to 29	47	1			
58	30 to 34	30	20	8		
59	35 to 39	13	25	20	1	
74	40 to 44	9	23	30	12	
67	45 to 49	11	20	17	19	
47	50 to 54	4	17	7	13	6
43	55 to 59	5	13	11	6	8
39	60 to 64	2	11	12	5	9
32	65 and Over	0	5	8	6	13
539	Total	193	135	113	62	36

them. Unless a plan provides unusually generous vesting rights, this small difference would not, in its entirety, be an added expense because turnover in this group is high: amounts accumulated on behalf of these employees are released on their separation from service and are applied to the future costs of the plan.

According to the above tabulation, it costs $66,500 to provide benefits for everybody (Group 1). It costs $11,000 to cover earnings in excess of $3,000 per year (Group 3). A larger part of the difference of $55,500 is attributable to the first $3,000 of earnings of the higher-paid employees. In this particular case, $16,000 or 29% of the difference benefits the higher-paid group, which represents only 18% of the total number of employees.

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Fidelity Losses Hitting Insurers Amidships

FIDELITY losses this year have been large and numerous. Many of them are on the most desirable type of risk, such as big manufacturing companies. Some losses so far this year have been of such dimensions that all hope of an underwriting profit for 1949 has vanished.

Some of the companies that had increased their retentions on fidelity lines in the past few years are now reducing the amount that they are retaining for their own account, and this is producing something of a reinsurance flurry.

Despite all the educational work that has been done to get agents and brokers to convert the fidelity business to the modern forms of coverage, some of the recent losses have impressed upon underwriters the fact that there is still a great deal of modernizing to be done. For instance, a Chicago manufacturer recently suffered a $100,000 loss in cobalt, due to the alleged operations of an officer and two other higher-ups in the company. This assured had an old primary commercial bond giving $10,000 aggregate coverage on any one loss, and hence that was the extent of its recovery. Even a blanket position bond would have given $10,000 coverage in respect to each of the three men, or $30,000 in all.

There have also been a great many losses in which the insurer paid out the total amount of the bond penalty and the assured had to stand a considerable excess.

—*The National Underwriter* 5/5/49.

Safety Counselors Help Keep Down Accident Rate

A WELL-TRAINED group of safety counselors at the Gates Rubber Company of Denver works day and night to help protect the health and lives of their fellow employees.

These modern "minute men" are elected by their fellow employees on each shift for the purpose of helping supervisors and foremen in their respective departments to prevent accidents. Their special job is to keep eyes and ears open for all safety hazards which may occur during working hours.

Safety counselors are elected once a year (in December) and meet regularly once a month with other "minute men." Each man and woman wears a special safety badge.

Among the special chores of these men and women counselors are: Keeping the department's safety record board up to date; maintaining the department's emergency first-aid kit; investigating all accidents and making suggestions to help prevent similar accidents in the future; counseling with employees on unsafe acts or conditions. The organization of such a group is, of course, good psychology, for, through the actual participation of many workers, a great number of employees become thoroughly safety-conscious.

—*Industrial Relations Service*, The Dartnell Corporation

Continuing Group Insurance on Retired Employees

INCREASING recognition is being given the problem of having a specific provision in group life term insurance plans covering older and retired employees.

The substantial increase in cost as age advances is shown in a comparison of the monthly group life term rates: As compared to the cost at age 50, the cost at 45 is approximately 27 per cent less; at 40, 43 per cent less, and at 30, 53 per cent less than at 50. The same coverage at age 55 costs approximately 45 per cent more than at age 50; 113 per cent more at 60; 218 per cent more at 65; 374 per cent more at 70, and 646 per cent more at 75 than at age 50.

Several leading group actuaries and service men have expressed their views at the request of the *Employee Benefit Plan Review*. Some of these are presented below.

"We try to discourage continuation of insurance for full amounts although there are some instances where the employer feels that he would like to provide for continuation of such full amounts despite our advice on the subject," Harold E. Dow, associate actuary, Prudential Insurance Co., states.

". . . We have had experience with plans in the past where a reduction provision was not included when the insurance was first sold, but as the case aged and the costs of insurance continued to increase from year to year serious consideration had to be given later to changing the plan of insurance. The form of reduction may vary all the way from a complete elimination to a partial reduction accomplished over a period of years and a series of steps. Some companies follow a plan of percentage reduction from year to year down to a fixed flat amount of insurance such as $1,000 which is then carried on a non-contributory basis regardless of whether the plan was previously contributory or not.

"The decision of a company as to which program will be followed by them depends largely upon their own personnel policies and their financial situation, as well as considerations of whether pension plans have been installed or whether some other plan of permanent insurance has been made available to the employees. Our advice in these instances would vary according to company conditions, but I think it is safe to say in general that we strongly recommend that some consideration be given to reducing group life insurance amounts following retirement," Mr. Dow concluded.

C. G. Hill, group secretary, Massachusetts Mutual Life Insurance Co., reports that his company has been giving serious consideration to the problem.

"Studies which have been made would appear to indicate that where the schedule of insurance provides a flat $1,000 or coverage on all employees, the basic rate will increase approximately 50 per cent if 25 per cent of the insurance is to be continued on retired lives; 100 per cent if 50 per cent is to be continued; and 150 per cent if the full amount is to be continued. From these approximate figures, it would appear that, in general, an employer would be better advised in the long run if he were to purchase a permanent plan of insurance on the lives of his employees in cases where the intention was to continue 50 per cent or more of the insurance upon retirement. This is, of course, prefaced on the assumption that the employer is following and will continue to follow a specific course with regard to retiring employees.

"Unfortunately, no hard and fast rule can be developed, since many factors must be considered by the employer in developing his employee benefit program. Employers with a formal retirement plan will usually be justified in discontinuing coverage at retirement or in continuing only a very moderate amount, such as $500 on each life. If the schedule of insurance is based on salaries there would be little effect upon the ultimate cost of the plan, since the $500 represents a very small percentage of the total insurance on an employee's life. On the other hand, if the same employer had a group insurance plan providing a flat $1,000 of coverage on each life, the continuation of $500 would have a very serious effect upon his ultimate rate.

"It is my personal opinion that, with the increasing demand for continuing insurance on retired employees, employers must look more and more to the permanent plans of group insurance as the most satisfactory vehicle of providing insurance on the lives of their employees. . . ."

In considering the continuation of group insurance after retirement, Gordon R. Bingham, actuary, Northern Life Insurance Co., said, "It would appear to me that the appropriate provision on this point would depend on the nature of the retirement benefits granted under any pension plan in effect. If the normal pension benefit is on a cash refund or installment refund basis or carrying a substantial guarantee period, it would seem that the group life insurance could well be terminated altogether, with the possible exception of a small death benefit such as $1,000. On the other hand, if the normal form of pension is on a straight life annuity basis it would appear desirable to decrease the group life insurance gradually as pension payments are made rather than terminate it altogether immediately on retirement. . . ."

Employee Benefit Plan Review, Spring, 1949, p. 26:3.

BOOK NOTES

[Please order books directly from publishers]

MANAGEMENT AND LEADERSHIP: *A Group of Letters to an Industrial Organization.* By Carl F. Braun. C. F. Braun & Co., Alhambra, California, 1948. 479 pages. $4.00. A compilation of thought-provoking letters on various aspects of industrial leadership written by the president of C. F. Braun & Company to its employees. Recommended reading.

FOREMEN ARE A PART OF MANAGEMENT: *Testimony Before the Senate Committee on Labor and Public Welfare, February 14, 1949.* By Glenn Gardiner. Elliott Service Co., 30 North MacQuesten Parkway, Mt. Vernon, N. Y. 16 pages. Gratis. A trenchant analysis of the managerial character of the foreman's job, which points up the incongruity of subjecting foremen to legislative provisions affecting rank-and-file workers. Includes Mr. Gardiner's point-by-point rebuttal of testimony presented by the president of the Foreman's Association of America.

EFFECTIVE COMMUNICATION IN INDUSTRY. By Paul Pigors. National Association of Manufacturers, New York, 1949. 88 pages. Gratis. The first of the two Lt. Rush Toland Memorial Fellowship Studies established by the NAM to explore ways and means of bettering employer-employee understanding and cooperation.